

JPRS-CAR-91-028  
22 MAY 1991



# ***JPRS Report***

# **China**

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NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA. 22161

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## GENERAL

### Implications of Gulf War Diplomacy

91CM0399A Hong Kong MING PAO YUEH KAN  
[MING PAO MONTHLY] in Chinese No 304, Apr 91  
pp 22-23

[Article by Ting Kuo (0002 2654): "The Middle East War and Chinese Diplomacy"]

[Excerpt] [passage omitted] Before the large battle started, people thought China's Middle East policy deserved highest marks, because it took into consideration the interests of every one of the participating countries. With regard to the United States, China voted in favor of 11 resolutions at the United Nations (namely, those demanding Iraq's unconditional withdrawal from Kuwait) and abstained from voting on the 12th resolution (to allow the use of military force against Iraq). In exchange, China's benefit was that Bush received Qian Qichen (thereby breaking down the restriction imposed by the West on contacts by their high-ranking officials with China) and it also facilitated the initial resolution of certain domestic political problems (such as passing sentences in cases from the 4 June incident) with the least possible foreign pressure from abroad.

At the same time, China objected over and over again to the use of military force in the Iraq-Kuwait conflict, and in this way preserved its connection with Iraq. After hostilities had broken out, China observed all along a cautious attitude of opposition, continuously calling for a cease-fire. Later, in the last peace talk between Gorbachev and Iraq's Foreign Minister Aziz, China again with all its strength supported mediation by the Soviet Union, although the peace proposal itself was in conflict with the 11th resolution of the United Nations (which China too had voted for affirmatively).

This contradictory diplomacy of China may be said to still be an extension of diplomatic thinking of the cold war era. We may also say that, if the situation would have remained deadlocked as a tense situation of neither war nor peace, China would have continued to benefit from it in diplomatic as well as economic respects, because both sides of the affair wanted to draw China to their side. China is a large country; it is one of the five standing members of the Security Council with veto power.

However, the situation came to an end unexpectedly with the victory of the United States. In an instant all the advantages that China had gained from its Middle East policy had completely vanished, and people immediately forgot about the role that China had played. China had lost the opportunity to appear in a certain leading position in the post-cold war building of the new international order, and is also not in a position to profit from the economic reconstruction of Iraq and Kuwait. China has this time flunked with its Middle East policy.

### Hollow Principles and Concrete Strategy

Why was it that China pursued an unsteady, vacillating policy in the present Middle East affair, a policy that was blurred and indistinct? It was because a kind of inertia in diplomatic thinking, an unchangeableness in the face of myriad changes, had for a long time occupied dominant position in China. The two principles that China would not change in its diplomacy are: 1) China is a developing country (and therefore must stand together with the developing countries); and 2) the five principles of peaceful coexistence (the omnipotent charm to resolve all international disputes).

We must admit that the five principles of peaceful coexistence indeed represent very lofty theoretical thinking and are also the people's ideal of future international relations.

During the cold war period, when the United States and the Soviet Union vied for world hegemony, China and its defensive posture, upholding these two principles, was highly acclaimed by all the countries of the world because, at that time, protecting the diplomatic independence of the developing countries and protecting world peace was mainly a matter of hoping for and actually restraining the expansion and the arms race of the United States and the Soviet Union. However, after the cold war, many different structural phenomena appeared on the international scene, and there was a relative decline of U.S. and Soviet power, while the right of China, Europe, and Japan to be heard in global diplomatic affairs grew correspondingly stronger. The hollow principles which used to be stubbornly emphasized once upon a time had become powerless to resolve problems. In many international affairs it is necessary for the main countries to pursue clear strategies and tactics. For instance, when Iraq occupied Kuwait, a mere loud enunciation to Husayn of the five principles of peaceful coexistence would not have induced him to withdrawn his troops, not in five and not in 10 years.

When the sudden eruption of this affair demanded that China, Europe, and Japan come forward with their own methods of solving the problem, they were all at a loss what to do, because they had not yet struggled free from the custom of reliance on power to solve international disputes. As to China, it was only after land fighting had become inevitable that it proposed a five-stage solution at a closed session of the Security Council. But since it had neither persuasive power nor feasibility, the plan did not accomplish anything.

Under these circumstances, the United States could implement its global strategy unimpededly. U.S. strategy had a clear objective and also a commensurate power of accomplishment. More important, U.S. strategy was closely linked to national interests (comprising political as well as economic interests). Judging by the outcome of the Middle East war, the United States gained the glorious distinction of having safeguarded moral rectitude, and it also gained the largest share of real benefits.



Its principles and concrete strategy were most perfectly integrated in point of benefits.

### **The Way Out for China's Diplomacy**

If China wants to play its part on the world stage of the future, it must create an entire independent strategy scheme that conforms to the great variety of world affairs. This strategy must rely on an integration of long-range principles and clear short-range methods that are effective in solving problems, and it must, furthermore, make it possible, through implementation of this strategy, to achieve in a fair and rational way the utmost of national benefits. In this sense, the establishment of a "National Strategy Research Center" by Communist China's State Council is of greatest significance, because the study of the science of strategy is a complex and comprehensive project which requires the mobilization of forces in all quarters.

It must be pointed out here that if China's diplomacy is truly intent on venturing into the wide world, it will not only be necessary to change old ways of thinking in the science of strategy, but traditional ways of thinking in a series of other issues, such as, for instance, in the worldwide question of human rights, will also have to undergo changes, so as to conform with the new trends in the world, and the new trend that guides the world must also be the direction for China's diplomacy to follow.

## **UNITED STATES**

### **Analysis of U.S. Postwar Position**

91CM0390A Hong Kong TANGTAI  
[CONTEMPORARY] in Chinese No 65, 2 Mar 91  
pp 9-10

[Article by Niu Tu (3662 3685): "After the Gulf War, the New World Order Will Be Even More Restless and Turbulent"]

[Text] After the clouds of the cold war had dissipated, the question of how to prevent regional armed conflicts became a conspicuous problem. This was a major reason why men of good will supported the multinational force headed by the United States to chastise Iraq's aggression according to the resolutions of the United Nations. People hoped that punitive action by the multinational force would have the effect of serving as an example that will warn others, so that any potential aggressor will not dare to take rash action, and so that on termination of the tense confrontation during the cold war period, a new world order will be established, one that will guarantee peace and stability in the international environment. The U.S. Government has made this kind of a promise to all the world. President Bush has said that he looks forward to the emergence of a new world order: That all international conduct shall be guided by legal norms, and that the United Nations will play a more important role in the maintenance of world peace. Is it possible that the Gulf war will indeed bring a new world

order of peace and stability? In my judgment, people would be advised to maintain a cautious attitude, and this for the following reasons:

### **Inability of the United States To Continue as the "World's Policeman"**

A well-established society requires an exemplary police force to maintain order. Since the international community contains lawless elements, such as Iraq's President Husayn, men who will resort to force to bully those that are too weak to resist, there seems indeed a need to have a "public-spirited" strong country to act as the "world's policeman." During the cold war era, the two superpowers, the United States and the Soviet Union, were evenly matched, each dominating one sector (each having its separate sphere of influence), and neither would dare provoke the other. The United States was intent on acting as the "world's policeman," but did not have the capability to really do so. Conditions have changed now. The Soviet Union, once so insufferably arrogant, has suddenly withdrawn from the competition for world hegemony, which leaves the United States the only superpower in the world. The foolhardy venture of Iraq's President Husayn has made the United States act this time as the "world's policeman." However, whether the United States can continue acting as the "world's policeman" will depend on some of the following conditions.

### **Opposition by the American People**

First of all, there will be opposition from the American people. In a democratic country, the powers of the leader at the head of the state are restricted. The opinion of the majority will in the end be the decisive influence. The American people will not lightly allow their government to intervene in international conflicts which do not involve important U.S. interests. This time, after the Gulf crisis arose, it required a tremendous effort by President Bush and his aides to persuade a majority of the American people and the Congress. Judging from historical experiences, the American people get weary of fighting as soon as a conflict drags on without evident results, or when casualties become extremely heavy. Government is then frequently forced to hastily conclude the conflict. The Korean war and the Vietnam war are relevant examples.

### **Ready Inclination of the United States To Turn Isolationist**

Second, due to geographical and historical reasons, isolationism is deeply and firmly rooted in the United States. After conclusion of every foreign war, there is a resurgence of U.S. isolationism, and this time may not be an exception. People cannot possibly imagine that soon after conclusion of the present Gulf war, the United States could again fight a war to pull someone else's chestnuts out of the fire. Many Americans are opposed to the government's reason for intervening in the present Gulf crisis, since U.S. reliance on Gulf oil was far less than Germany's and Japan's; why then expend the blood

of young Americans to ensure other people's oil supply? Moreover, can the United States, economically, maintain its position of a great, militarily powerful country? In the present world situation, the military power of the United States is second to none; this is an undisputable fact, but the U.S. economy is not what it used to be. The United States has already declined from an economically strong country, first in the world in manufacturing, trade, capital exports, and gold reserves, to a country whose competitiveness is fast deteriorating, a country with a huge trade deficit, a country that is economically sick with its frightening financial deficits, and a country that has recently become the world's largest debtor nation. In the present Gulf war, it was the United States that expended manpower and armament, while Japan, Germany, Kuwait, and Saudi Arabia gave money. The formidable U.S. military forces almost assumed the nature of a mercenary army for other countries which supplied soldiers' pay and provisions. A country without the backing of enormous economic strength cannot long maintain itself as a great, militarily powerful country. Now that the U.S. economy has sunk to this wretched position, it is, of course, a big question whether the United States can maintain its position of a great, militarily powerful country, as would be required if it were it to act as the "world's policeman."

#### **The Coalition of Western Countries Cannot Be Sustained**

In the process of dealing with the present Gulf crisis, it became evident that the coalition of the major Western countries has been of critical importance.

The diplomatic activities by the U.S. Government at the start of the Gulf crisis had been remarkably effective in bringing this coalition about, and these efforts indeed command everyone's admiration. However, the differences between the United States and the other Western countries also became very evident. France did not abandon its attempts to bring about a peaceful solution of the Gulf crisis right up to the last day before the outbreak of hostilities. At the height of the fighting, the French defense minister resigned in anger because he was dissatisfied with the strategy of the multinational force. Germany maintained a lukewarm attitude toward the U.S. standpoint, and only when it felt it could stall no longer did it contribute some money to perfunctorily meet the situation. When President Bush informed German Prime Minister Kohl on 16 January of the start of operations, Kohl in a rage slammed down the receiver (see INTERNATIONAL HERALD TRIBUNE of 31 January 1991). Italy's support of the United States during the whole duration of the Gulf crisis has been half-hearted. Only Britain with its "special relations" with the United States could still be called a "true friend," as it stood completely and unambiguously at the side of the United States. However, in the long run, it will be impossible for Britain to forsake its nearby European partners just across the Channel for Uncle Sam far away on the other side of the Atlantic. On most important international questions, Britain's standpoint

will in the end come close to that of its European partners, and not closer to that of the United States. Japan, because of the restrictions of its postwar peace constitution and the opposition among its people, could also only come up with a monetary contribution, just like Germany.

#### **Internal Contradictions Within the Western Camp Will Grow More Acute**

After cessation of hostilities in the Gulf war, the differences of opinions and contradictions between the United States and the other Western countries on major international questions are bound to become much more acute. Now that the cold war had ended and the military threat from the Soviet Union has greatly abated, the various Western countries will pay much more attention to their own particular interests. The United States, faced with its domestic economic difficulties, will largely eliminate its military forces stationed in Europe and Asia, and will then also ask Western Europe and Japan to make larger concessions to the United States in economic issues. As soon as Western Europe and Japan reduce the extent of their military reliance on the United States, they will, of course, see no further need to be "accommodating" to the United States. In this scenario, relationships among the major Western powers will unavoidably slacken. A comparison of the strength of the world powers shows that a new world order that is not based on the coalition of the major Western countries is not stable. People realized in the present Gulf crisis that the strength of some militarily strong countries of the Third World has already advanced to such a stage that it could be restrained only by the collective strength of the major Western countries.

#### **The Role of the United Nations Must Not Be Assessed Too High**

When the United Nations organization was established, its supreme purpose was to maintain world peace. Whether the United Nations can adopt compulsory measures to maintain peace depends, according to its statutes, completely on unanimity of the five permanent members of the Security Council, who have veto power. For a very long time after the war, sharp differences of opinion and contradictions between East and West, between China and the Soviet Union, and between China and the United States prevented unanimity of views on major international issues between the five countries who are permanent members of the Council. As a result, the United Nations became something like an "idle debating club," whose record of preserving world peace was deplorable. For instance, when the Soviet Union invaded Czechoslovakia in 1968 and invaded Afghanistan in 1979, the United Nations was unable to do anything about it.

#### **The Exceptional Case of Soviet Support for the United States**

After the outbreak of the Gulf crisis, the unprecedented event occurred that for the first time all five permanent

members of the Security Council adopted a basically uniform standpoint on a major international issue and passed important resolutions, condemning Iraq's aggression, imposing economic sanctions, and finally authorizing the multinational force, headed by the United States, to use military force against Iraq. The main factor in the background of this new situation was the change in the foreign policies of China and the Soviet Union. The Chinese Government saw in the present Gulf crisis an excellent opportunity to improve its international image after the 4 June incident, to achieve the lifting of economic sanctions which the West had imposed on China, and to mitigate Western criticism of the human rights problem within China. It is for these reasons that China made its limited concessions to the United States. As for the Soviet Union, it was, on the one hand, that former Foreign Minister Shevardnadze, in implementing Gorbachev's "New Thought," changed the Soviet Government's past mistaken foreign policy, and, on the other hand, that the Soviet Union, under the shadow of a "hunger winter," hoped for economic assistance from the West.

#### Unity of the Five Powers Can Hardly Be Maintained

Whether the five permanent members of the Security Council will be able, after the conclusion of the Gulf crisis, to maintain basic uniformity of standpoints on major international issues is a great question. The Chinese Government, after achieving the above-mentioned purposes, is bound to return to its widely proclaimed track of a "foreign policy of independence and self-determination," and differences with the other permanent members of the Security Council will in future again be determined by the Chinese representative at voting time. The important changes in the domestic politics of the Soviet Union and the resignation of former Foreign Minister Shevardnadze are having their impact on Soviet foreign policy. On his recent visit to the United States, newly appointed Foreign Minister Aleksandr Bessmertnykh urged the United States not to "destroy" Iraq and to "incline toward a solution of the Gulf crisis within the Arab world." This indicates that the Soviet Union is already withdrawing from its former standpoint of close cooperation with the United States. With the resurgence of conservative forces in the Soviet Union, there will be no decline, but rather an increase in differences of opinions on major international issues between the Soviet Union and the Western countries.

#### Increasing Restlessness in the World

To sum up, if people think that, with the resolution of the Gulf crisis, it will be possible to immediately accomplish setting up the new world order of peace and stability, the prospects for such to happen are dim. After the Gulf war, people will face a world that, on the contrary, may be more restless and turbulent than the cold war era had been. This is so because in the East-West confrontation of the cold war era, regional contradictions and conflicts had been to varying degrees the result of East-West relations. But the two superpowers

contending with each other for world hegemony each had a stockpile of nuclear weapons sufficient to destroy all of humanity several times over. In order to avoid that regional military conflicts might lead to full-scale nuclear war, with results that are too dreadful to contemplate, the two superpowers, the United States and the Soviet Union, while each striving for world hegemony, also were most careful to prevent that powerful regional countries within their spheres of influence would "exceed the bounds of permissible behavior." Now, however, the Soviet Union has suddenly lost its power to restrain its former "allies" (such as Iraq). The United States too is considerably weaker in its capability to control its allies. In this situation, some powerful regional country could be suddenly inclined to use military force to achieve political, economic, or ideological objectives. The difference between today and the cold war era is that the possibility that regional military conflicts could touch off full-scale nuclear war, which could destroy all of humanity, has greatly declined. This may perhaps also be counted as progress of historical significance.

### NEAR EAST/SOUTH ASIA

#### Impact of Gulf War on Arab World

91CM0392A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 173, 23 Feb 91 pp 5-6

[Article by Wang Lianzhi (3769 6647 1807): "Impact of the Gulf Crisis and Gulf War on the Arab World"]

[Text] The Gulf crisis has already turned into a Gulf war. Suffering the most serious damage are of course the Arab states and people, while it is absolutely impossible to estimate the impact that the crisis itself will have on the Arab world.

#### Crisis Caused Split in the Arab World

The Gulf crisis has finally revealed to the general public the differences that exist in the Arab world. Because of different interest relations and different points of departure, huge differences between the Arab states have become evident at the start of the crisis.

Among the Arab states that condemned Iraq's aggression against Kuwait, Egypt exhibited extreme sensitivity with regard to Iraq's "establishment of the dangerous precedent of one Arab state overthrowing another Arab state by military force." It was especially the fact that Iraq's military might had become inflated during the Iran-Iraq war to an unassailable dimension that also threatened Egypt's position in the Arab world. Syrian relations with Iraq had been bad for many years and deep hatred had accumulated there. As to the Kingdom of Morocco, though far away from Iraq, radical Iraq had often declared its opposition to feudal Arab kingdoms; on the other hand, cordial friendship existed between King Hassan II, the emir of Kuwait, and the king of Saudi Arabia. As the six Gulf states that belong to the Gulf

Cooperation Council and are also linked in a mutual defense treaty, they felt the fall of Kuwait to forebode approaching danger.

Among the countries on the side of Iraq, the PLO, frustrated over the last few years in its repeated efforts to achieve a political solution through negotiations, had its talks with the United States break down in June 1990. Palestinians inside and outside of the occupied territories now tend to assume a stiffer attitude toward the United States and Israel. Many factions, therefore, regard radical Iraq as a new hope for the Palestinian cause. Libya's sentiments are irreconcilably antagonistic toward the United States. Jordan and Yemen are small and weak countries in straitened circumstances, also always begging Iraq for support.

Especially after 11 August of last year, Egypt, Morocco, and Syria sent military forces to Saudi Arabia, ostensibly to help Saudi Arabia defend itself against foreign aggression, but these forces were incorporated into the multinational force headed by the United States. Moreover, it is still an unknown factor whether these Arab contingents will be able to completely avoid coming to blows with Iraqi forces or fighting them off in defense in the course of future developments.

#### **Setback for the Palestinian Cause**

During the last few years, relaxation in East-West relations not only did not bring peace to the Middle East, but, on the contrary, had the Middle East situation take a turn for the worse. In the problems of the Middle East, the United States adjusted its policy somewhat, but did not change its partiality for Israel's stand of not recognizing the right of self-determination for the Palestinians. On the other side, the Soviet Union is yielding positions and drawing back everywhere in the Middle East, and has abandoned its former firm policy of a "strategic balance" between Syria and the other states and Israel, and has also cut back on its military assistance to the Arab states, especially the supply of advanced weapons. On the other hand, the Soviet Union and the countries of Eastern Europe vie with each other in efforts to resume diplomatic and other relations with Israel, especially the Soviet Union, which, in order to obtain most-favored-nation privileges from the United States, has abolished restrictions on Jewish emigration to Israel. In 1990 alone, 200,000 persons emigrated to Israel, and, in the next five years, more than 1 million Soviet Jews will emigrate to Israel. This constitutes an unprecedented disaster for the Arabs and the Palestinians.

The past policy of the Soviet Union and the East European countries of supporting and favoring the PLO has almost completely vanished. The Soviet Union, moreover, has pressured the PLO leadership to adopt a more conciliatory attitude on the question of peace talks. The PLO leadership is very much concerned about the fact that, in seeking a political solution during the last few years, it has paid a very high price but has very little

to show for it. To maintain solidarity under these circumstances, the PLO has shown a much stiffer attitude on a series of major issues. This is also one of the reasons for the PLO to express itself in favor of Iraq during the Gulf crisis.

However, this attitude of the PLO has been extremely vexing for Egypt, Saudi Arabia, and the Gulf states, and they have imposed sanctions against the PLO and cut all their assistance to the PLO. During the second half of last year alone, losses to the PLO, including bank deposits and property in Kuwait, and other income and foreign aid, were as high as \$4 billion; overseas remittances declined by \$1 billion.

Iraq's President Saddam first started on 12 August to propose linkage of the Palestinian question to the Gulf crisis. This proposal raised the banner of support for the Palestinians cause, but actually was to serve as a shield for Iraq's aggression against Kuwait. In the international purview, his action not only did not help the Palestinian cause, but harmed the reputation of the PLO, which made it thereafter almost completely impossible for the PLO to get support from anywhere.

The expansion of Saddam's wild ambition benefited Israel in no small measure. Especially after Iraq shot eight missiles against Israel with the intention of dragging Israel into the war, the Israeli authorities maintained an attitude of self-restraint in order not to create embarrassment for the United States. This brought about a substantial improvement in U.S.-Israeli relations and in relations between the West European countries and Israel. The European Community lifted sanctions it had imposed for Israel's suppression of the Palestinians. The United States and the West European countries one after the other provided economic and military aid to Israel. On the other hand, Israel's harsh suppressive measures in the occupied territories were criticized only lightly and casually, and the extreme right wing in Israel ran rampant.

On 8 October last year, Israel perpetrated another massacre at the Temple Mount in Jerusalem, where 21 Palestinians were killed and 150 wounded. This somewhat improved the situation of the PLO and made the international community aware of the urgency to resolve the Palestinian question. The PLO seized the opportunity to criticize the United States for adopting a "double standard" in the Middle East, and gained much sympathy in the countries of Western Europe. On 14 January of this year, two highly placed personalities of the PLO were murdered in Tunis, which was another setback for the Palestinian cause. Because of the development of the Gulf crisis and its increasing intensity, the United States had already decided at an early date to solve the crisis by force of arms, and the Palestinian question was evidently relegated to low priority. With the Gulf war still in progress, the Palestinian question will hardly be placed on the agenda of the day for quite some time.

At present, the circumstances of the Palestinians in the occupied territories are even more deplorable and tragic. Since 17 January, the day of the outbreak of hostilities, Israel has enforced a strict curfew. The Palestinians are not permitted to leave home to go to work, and many have no more money to buy food and are facing starvation; 35,000 students cannot attend school. Various economic losses suffered by the Palestinians amount to as much as \$30 million per week. Grief, indignation, and despair are spreading among the Palestinians.

#### Efforts To Protect Arab Interests

Although the Gulf crisis has brought about a split in the Arab world, a certain unanimity has also developed in the course of events, namely a general consensus that Iraq must evacuate Kuwait, and that it must not be allowed to destroy Kuwait, having the status of a regular member of the Arab League. After outbreak of the Gulf war, the Arab countries have again displayed a further common understanding, namely anxiety about and opposition to a widening and escalation of the conflict, and also the hope for an earliest possible cease-fire.

Egypt has been most vehemently opposed to Iraq's invasion of Kuwait and has stationed 36,000 troops in Saudi Arabia, but Egypt has not yet participated in the fighting. Mubarak has indicated that Egypt "hopes Arabs will not kill Arabs." He also expressed the opinion that the use of military force by the multinational forces to topple the Iraqi regime "would exceed the scope of UN authorization." Recently, Egypt also warned Washington that the Gulf war must be over before the middle of March, when the Islamic holy month of Ramadan begins, also that there must not be a complete destruction of Iraq, as anything else would have unfavorable consequences for the multinational forces. U.S. experts on the Middle East said that this war is assuming more and more the following aspect: This is a conflict between Western imperialism, which attempts to force its will on this region, and a strong Arab leader, who refuses to surrender. Since the Arab countries hate foreign rule, experienced by them for a few hundred years in their past, they instinctively take their stand at the side of a leader of this region who tries to oppose this kind of a rule.

Although Syria has publicly criticized Saddam—it has had bad relations with Iraq for many years—for being responsible for the suffering of Iraq and the Arab world, the Syrian Government on 5 February indicated that it is giving increasing attention to the development of the Gulf war and its purpose to destroy Iraq's economic and military might, and also to the military assistance rendered by the United States and West European countries to Israel. The Syrian government also warned Israel and certain "big powers of the world" not to use the Gulf situation as a pretext to threaten the security of the region and of Arab countries.

Prime Minister Badran of Jordan pointed out on 5 February that it was the "great powers" participating in the Gulf war by adopting "destruction of Iraq's might" as their objective, who have thereby alone closed the gate to peaceful efforts.

Although the Gulf war started because of Iraq's invasion of Kuwait, which induced the United States to carry out the deployment of large forces in the Gulf region, it is the continuation of a fierce contest that has gone on for many years between different forces in the Middle East. The war is the extension of struggles caused by a variety of contradictions, and it will also induce developments and changes in the overall setup throughout the world. In whatever form the present war is concluded, it will have a major impact on the development of the overall situation in the Middle East.

First of all, the Arab world will be further divided in its organizational composition. The present Gulf crisis has brought about an alliance of Egypt, Syria, Saudi Arabia, and other Gulf states in opposition to Iraq's aggression. It seems that this alliance will endure. Especially in the postwar security system of the Gulf region, the Gulf countries need Egypt. Even if Iran maintains neutrality, the Gulf states will not relax their vigilance against that country.

Prior to the Gulf crisis, radical forces in the Arab world had grown distinctly stronger. During the present Gulf crisis and war, there has been an increasing anti-U.S. sentiment among the masses of the population, which additionally provided fertile soil for the activities of radical forces. It was especially the activities of the religious extremist forces which posed a difficult problem for the political stability in many countries. This situation inevitably placed restraints on leaders of those Arab countries that maintained close relations with the United States and even constituted an element of danger for them.

The Gulf war will exact further sacrifices from the United States. The United States, in the pose of a victor, is of course intent on completely controlling the Gulf and even the Middle East region, to thereby realize a unified domain all for itself. However, this intention runs counter to the original intentions of the Arab countries. If the United States thinks to stay on in the region and not leave it, it is bound to arouse even stronger anti-U.S. feelings among the Arabs and throughout the Islamic world. At present, the European countries and Japan, in expressing ideas about the postwar Gulf region, have already made many statements that run counter to the views of the United States, especially on holding a Middle East peace conference and on resolving the Palestinian question. It will simply not be feasible for the United States to maintain its outmoded Middle East policy, that tries to stick to obsolete ideas and to preserve antiquated institutions.

## NATIONAL AFFAIRS, POLICY

### Proposals To Build Macroeconomic Equilibrium Apparatus

91CE0467A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 2, 11 Feb 91 pp 3-10

[Article by Zhang Lina (1728 7787 1226), Macroeconomic Equilibrium Control Problems Group: "Basic Thoughts About the Building of a Macroeconomic Equilibrium Control Framework." China Economic System Reform Research Association Deputy Director Liao Jili (1675 1323 4539) is in charge of this topic, the specifics of which are in process of being studied. The present article is one line of thinking about this topic.]

[Text] Following the Third Plenary Session of the 11th Party Central Committee in the 1980's, the highly centralized, rigid, and closed pattern in the history of China's socialist construction came to an end, and China entered a new period of reform and opening to the outside world. During the past 10 years, the people's standard of living has improved markedly; social wealth has increased remarkably, and a new socialist planned commodity economic system and operating mechanism have gradually taken shape. Tremendous accomplishments that attracted the attention of the whole world have been won in economic development and economic reform. Nevertheless, we must also realize that the tasks involved in really putting China's national economy on a path of sustained, steady, and coordinated development are still extremely daunting. Experiences both at home and abroad fully attest to the paramount problem in the attainment of sustained, long-term, and coordinated development of the national economy is whether proportionally balanced development is macroeconomically possible, and whether timely, accurate, and effective macroeconomic control of the operation of the economy is possible. These are problems that must be solved in the development and reform of the country's economy during the 1990's; and their solution is also the key to the building of a distinctively Chinese brand of socialism in which planning and markets are organically combined. The present article attempts a preliminary exploration of the theoretical underpinnings and the basic framework for the building of a new macroeconomic equilibrium control system in China, as well as the steps to be taken in the transformation.

#### 1. Insights Gained From Historical Experience About Macroeconomic Equilibrium Control

In today's world, no matter whether they have a centrally planned economy, a market economy, a mixed economy, or any other kind of economy, all countries have to maintain macroeconomic equilibrium and stability in the national economy, first of all, in order to realize stable and rapid growth of the national economy. In order to attain this goal, all governments employ economic, administrative, and legal methods for vigorous

intervention in and control of economic activity. China's historical experiences in the building of socialism during the past 40 years, and in economic reform during the past 10 years, fully attest to this point. During the past 40 years, some beneficial experiences meriting diligent summarization have been gained in the country's macroeconomic management. Not only have these experiences historically enabled the country's economy to get out of predicaments, but they have also provided ideas that can be drawn upon in building a new macroeconomic equilibrium control system. These experiences are principally as follows:

All around balance has to be emphasized in the macroeconomy as a whole. Ever since the 1950's, planning of the country's fiscal and economic work has called for four balances, namely in fiscal revenues and expenditures, the scale of credit, the scale of construction, and market supply and demand. Historical experience demonstrates these four main balances to be mainstays in the overall balance of the country's macroeconomy as a whole. In every historical period, whenever these four balances were adhered to and guaranteed, the national economy achieved overall equilibrium that made possible proportionally stable and coordinated growth. Whenever these four balances were ignored or negated, the economy fluctuated or even got into a predicament.

Leeway must be left in the planning of the national economy. This is a problem in planning of the economy that has policy overtones rather than a general work method. Most important in carrying out this policy is maintenance of balance between the amount of national income distribution used and the amount produced. How can this balance be effected? The only way is by arranging plan quotas so that the distribution of national income will be less than the amount produced. This method is seemingly unbalanced, but balance can be reached in implementation. This seemingly unbalanced yet balanced method whereby balanced economic growth is obtained during any given period is what is meant by leeway. The reason is that the amount of national income produced limits the amount of national income for use. If the amount used is greater than the amount produced, this is bound to create too great a distribution of national income, and if too great a distribution of national income continues, this is bound to occasion overall imbalance in the macroeconomy, and a decline in returns that produces an "economy of shortage." Therefore, only by putting leeway into plans for the distribution of national income can total demand be restrained, total supply increased, investment reduced, expenditures increased, returns improved, and the structure optimized for the formation of competitive buyers' markets.

Emphasis on agriculture and soft-pedaling of heavy industry in the economic structure. In light of the country's circumstances, a policy that gives first place to agriculture and development of the rural economy, making agriculture the foundation in a change from the

priority development of heavy industry is entirely correct. China is a large country in which only the priority development of agriculture can lay a foundation for the development of industry to provides the conditions needed for social, political, and economic stability. So long as planning of the important proportional relationship of stressing agriculture is done properly, with correct handling of the correlation between accumulation and consumption, constant readjustments of the internal relationships in agriculture, industry, and other industries, and steady readjustment and optimization of the industrial structure, it is possible to lay a fine foundation for development of the national economy.

Giving attention to use of the market mechanism even while carrying out central government plan regulation. Prior to reform and opening to the outside world, particularly during the recovery and First Five-Year Plan periods, the state both used and simulated the laws of value in the procurement of some agricultural by-products. As a matter of policy, it opened free markets within certain limits, and made award sales in purchasing certain agricultural by-products. It called for the organization of industrial goods production on the basis of market demand, and put into effect selective procurement policies for industrial consumer goods. Following reform and opening to the outside world, plan and the market were more closely linked; the role of the market mechanism became steadily stronger; the market system developed rather rapidly; and an operating mechanism for the socialist planned commodity economy gradually took shape.

Making the most of two initiatives in economic management work. For the first 30 years following founding of the People's Republic, the idea of "monopoly of major authority, and decentralization of minor authority" was put forward in economic management work in an effort to gain both centralization and flexibility in economic management work. With reform and opening to the outside world, attention was given in economic management work to making the most of the initiative of the central government and local governments, the state and enterprises, enterprises and staff members and workers, and the state and peasants. The central government controlled important economic activities having to do with the national economy and the people's livelihood such as national plan, investment, fiscal receipts and expenditures, the issuance of currency, the scale of credit, important materials and commodities, and the overall level of prices. It gave local governments a certain amount of management authority, and it gave enterprises a certain amount of administrative independence. It changed the "factory management law" with regard to economic activities, thereby enlivening the microeconomy. In short, economic management is steadily developing, changing, and improving with growth of the commodity economy and the market system.

The above experiences fully demonstrate that macroeconomic equilibrium is the main problem in economic life. Only when operation of the macroeconomy reaches

equilibrium, and total supply is slightly larger than total demand can there be a stable and relaxed macroeconomic environment and good conditions for reform. The viewpoint that "fiscal deficits do no harm," that "inflation is beneficial," and use of both to stimulate economic growth is not in keeping with the country's circumstances. In particular, now that the country's economic system reform and opening to the outside world has demolished the traditional, closed equilibrium, and shaped an open unbalanced system, if equilibrium in the macroeconomy is to be attained, it is neither possible to continue the traditional form of regulation and control of a high degree of centralization at the central government level, nor is it possible to copy blindly the methods of regulation and control of a free market economy. Instead, it is necessary to build an equitable and effective macroeconomic regulation and control system that meets requirements of the socialist planned commodity economy, building an internal stabilizing and coordinating mechanism that prevents intense cyclical economic fluctuations.

## 2. Theoretical Basis for Regulation and Control, and Basic Forms of Macroeconomic Equilibrium

The theories on which macroeconomic equilibrium regulation and control rest differ from one system to another. The theoretical foundations on which China's socialist macroeconomic equilibrium regulation and control system framework is built are several as follows:

1. Preliminary stage of socialism theories and macroeconomic regulation and control. During the past 10 years of reform, a new understanding about problems during the socialism stage have been clearheadedly arrived at after summarizing and reflecting on the lessons of experience gained in the practice of socialism during the previous 30 years in China. We clearly recognize that China is currently in the preliminary stage of socialism. Since the level of development of productivity is relatively low, and the degree of commercialization and monetarization is very low at this stage, the task during this preliminary stage is vigorous development of a commodity economy to increase productivity. Doing this requires the building of a macroeconomic equilibrium regulation and control system, and the steady augmentation and perfection of this system as the commercialization and monetarization process gradually advances. Although China's macroeconomic regulation and control system is similar in some respects to that of developed Western countries now and for the immediate future, it also has substantial differences. The most important of these are as follows: In the goals and methods of regulation and control, Western countries mostly set market goals, primarily applying indirect economic methods. In effecting regulation and control, Western countries rely on the market. China should depend primarily on the market, but owing to the limitations of market development, it cannot completely effect regulation and control through the market. Nor can economic methods be completely and systematically used as means of effecting regulation and control.



2. Socialist public ownership theory and macroeconomic regulation and control. Under the socialist public ownership system, the means of production are owned by society; consequently, the equitable distribution of social benefits is required to satisfy to a fairly great extent society's material and cultural needs. This inherently requires that socialism have a fairly high labor productivity rate, and that it develop large scale socialized production. Socialist large scale production must be balanced throughout the macroeconomy as a whole, equilibrium achieved through effective regulation and control. However, for reasons such as system inequities, public ownership of the means of production does not necessarily lead to efficiency or assure economic equilibrium. The system of "eating out of a large common pot," frequently prevents improvement of efficiency and balanced economic development. Therefore, the socialist system of ownership has to use a market mechanism. These two inherently complement each other: public ownership of the means of production both employs the market mechanism to augment its own power mechanism, and it also prevents the blindness and the alienation that the market mechanism brings. The market mechanism uses public ownership of the means of production to regulate the direction of its own operation, and it also avoids having the principle of equitability become an obstacle to economic development and improvement of efficiency when the system is not working rationally. Therefore, the public ownership system and the market mechanism must and can work in combination, and only by building a macroeconomic regulation and control system can the two work together better at the macroeconomic and the microeconomic levels.

3. Socialist planned commodity economy theory and macroeconomic regulation and control. The socialist planned commodity economy theory that the Third Plenum of the 12th Party Central Committee proposed spelled out the basic goals of economic system reform. Plan is consciously based on and applies the laws of value and the relationship between supply and demand to promote and bring about the full development of a commodity economy. However, in order for the commodity economy to achieve healthy development, there must be plan guidance, regulation, and necessary administration and management. It is in accordance with this theory that macroeconomic regulation gives substance to the combination of plan and the market. Macroeconomic direction, and regulation and control of the economy's operation enables economic development that is both consistent with the country's overall situation and long-range interests, and that also reflects value laws and market supply and demand requirements.

4. The economy's operating mechanism and macroeconomic regulation and control. The combination of a plan economy and market regulation is a plan commodity economic system operating mechanism. Its specific manifestations and connotations are as follows: Plan is market mechanism plan; the market is a plan-directed

market; operation of the economy follows the path of commodity economy operation; and the regulation mechanism is a combination of the vertical plan mechanism and market mechanism. The point of intersection is the laws of value and the law of supply and demand. Accordingly, determinants of national economic macroeconomic management policy are as follows: Conscious and effective state control of all economic activity, and the application of plan decisions, the market mechanism, economic policies, economic levers, economic information as well as pertinent laws, and auditing. The macroeconomy, the market, and enterprises are coordinated, balance, regulation, and control effected area by area and level by level under national macroeconomic equilibrium, regulation, and control, each economic entity acting independently in the market in accordance with national macroeconomic regulation and control principles.

In light of the above basic theory, the basic model for building China's macroeconomic equilibrium and regulation and control system should be as follows: Government application of economic, administrative, and legal measures in energetic macroregulation and control of economic activity to provide a stable relaxed market climate. Concrete economic activities are to be conducted in the market, the market effecting regulation and control. Government intervention should be primarily through functioning of the market, the market gradually becoming an openly competitive market. This can organically link the macroeconomic and the microeconomic, plan and market for the unification of equitability and benefits. The specific form is sharing of authority, a sharing of responsibility, and level-by-level regulation and control under centralized central government regulation and control. With overall economic balance as its goal, the central government can proceed from control over total demand. It can use plan, government finance, and banking as main methods in close coordination to shape a regulation and control system at the central government level from a foundation of self-equilibrium that is mutually balancing and mutually restricting. Restricted by central government regulation and control, the central government and local governments can share authority and share responsibility for level-by-level management and level-by-level assumption of responsibility for equilibrium, carrying out echelon-by-echelon regulation and control.

### **3. Ideas About the Building of a Macroeconomic Equilibrium, and Regulation and Control System**

The macroeconomic equilibrium, and regulation and control system framework is made up of four components, namely the equilibrium system, the regulation and control system, the early warning system, and the organizational system. The method used to effect macroeconomic control is the accounting system with a gradual change from the currently used MPS (material quota balance) system to the SNA (value quota balance) system, combining the best of both.



1. Macroeconomic equilibrium system. Macroeconomic equilibrium is the base point for macroeconomic regulation and control. The first requirement is overall macroeconomic equilibrium. If anticipated equilibrium cannot be attained, then macroeconomic regulation and control will have to be instituted frequently and by degrees. By macroeconomic equilibrium is meant mostly the dynamic equilibrium of the three [sic] elements of structure and areas in which overall equilibrium is the core. This system is made up primarily of the policy system and the quota system.

The macroeconomic equilibrium policy system:

Equilibrium between total supply and total demand. Total equilibrium goal values differ from country to country. In China, future total equilibrium should take moderate economic growth and distribution as the main goal values. Economic growth is limited by agricultural growth, manpower resources, capital accumulation, the available of funds, and the capital output rate. Estimates call for a GNP rate of increase over the next 10 years of between about 5 and 6 percent. Moderate economic growth to attain overall equilibrium is decided primarily by balance in the distribution of national income. The distribution of national income should be slightly lower than the production of national income. If GNP increases approximately 6 percent, total distribution should be set at 5 percent.

Equilibrium between national income distribution and accumulations and consumption. The main task of macroeconomic regulation and control is control of total demand. Imbalance between total supply and demand is primarily the result of too great a distribution of national income. Too great a distribution of national income inevitably leads to the issuance of too much currency. Therefore, control of total demand to effect a balance with total supply requires, first of all, control of the currency supply. The amount of currency in circulation is determined by the economic growth rate, the price index, and the speed of currency circulation. Thus, for the next 10 years, currency supply should increase generally by approximately 13 percent. Simultaneous with control of aggregate demand, attention must also be given to control of the proportional relationship between accumulation and consumption in total demand. In view of the country's historical experience and future development needs, the ratio of accumulation to consumption should generally be maintained at three to seven, the accumulation rate generally not exceeding 30 percent, about 25 percent being best.

Sensible increase in consumption demand. Consumption in China today is divided into three main parts, namely peasant consumption and payments for labor services, city and town resident consumption and payments for labor services, and social group consumption. In view of the annual 5 percent increase in total distribution of national income, were these three parts to be planned properly, total consumption would increase by a general 5 percent annually. The principal source for

consumption in China today is wages, so the key to regulating and controlling the sensible growth of consumption lies in how to control the rate of increase in wages and some nonwage consumption income. The rate of increase in wages must be lower than the rate of increase in labor productivity. Income policies in Western countries mostly control hourly wages, and are augmented by taxation policies. In China today, however, the direct control method of controlling the total wage bill is used; there is no true embodiment of the principle of distribution according to labor. Inasmuch as China does not now have labor markets, and since its price system is irrational, this direct method of control may move in the direction of wages levels set by industries, and be supplemented by taxation to regulate the transition. In addition, a declaration and taxation control system will have to be set up for nonwage income.

Sensible investment of accumulations, and effective allocation of production elements. Accumulations derive from investment, accumulation funds being built up in three ways, namely from investment in fixed assets, investment of working capital, and accumulations from nonproductive sources (such as national defense and nonconsumption accumulations). The savings account growth rate controls total investment; generally speaking, increase in investment cannot exceed increase in savings. China's investment in fixed assets should amount to approximately 25 percent of national income. Working capital should depend on the increase in production and working capital in material form. The ratio of working capital to working capital in material form in China in recent years was 1:3.1 in 1983 and 1:1.12 in 1989. This demonstrates a very rapid increase in the amount of demand for working capital, and a slowing in the turnover of working capital (the insufficient amount of working capital also has a bearing). The supply of working capital should be based on the speed of turnover of funds and credit policy.

Equilibrium in fiscal receipts and expenditures. Equilibrium in fiscal receipts and expenditures, and in credit assures equilibrium between total supply and demand. Given the country's current circumstances, attainment of equilibrium in fiscal receipts and expenditures requires that work be done in the following two regards: (1) Defining the action authority of governments at all levels to insure that action authority does not exceed financial authority. The financial authority of the central government, in particular, must be consistent with its macroeconomic regulation and control function. Currently the country's financial revenues account for 19 percent of national income. Obviously such a percentage cannot ensure effective macroeconomic regulation and control. Total financial revenues as a percentage of national income, and central government financial revenues as a percentage of total financial income must be increased to a reasonable extent. (2) Ensuring balance between government receipts and expenditures, and increasing the transparency of government financial matters at all levels requires that government at all levels

use double entry budgeting, making separate budgets for current items and capital items as the different nature of government financial receipts and expenditures requires. Should it be found that government financial receipts and expenditures are out of balance, planning, government finance, and banking institutions should jointly discuss and study the problem, borrowing internally and increasing taxation as means of solving the problem so as to avoid a supraeconomic expansion of the currency supply.

Equilibrium in the scale of credit. The key to credit equilibrium lies in proper control of the money supply, credit thereby being subordinate to the money supply. Currency issuance cannot exceed the speed of economic growth. An important way of effectively controlling the issuance of currency lies in assuring the relative independence of the central bank, which cannot be under control of the Ministry of Finance or the "will of senior officials." For some time to come, the control of the scale of credit may be continue to be applied to control the issuance of currency. Increase in the scale of credit should be lower than the speed of production, thereby controlling currency, and promoting the circulation of funds. The control of currency also entails the setting of a rational reserve rate, different reserve rates being set for different savings and different financial institutions, to more effectively control the scale of credit.

Equilibrium between investment in fixed assets and goods and materials. Balance in goods and materials is an important requirement for balance between total supply and total demand. Lack of equilibrium in goods and materials can destroy the balance between total supply and demand. Therefore, when planning investment in fixed assets, the supply of goods and materials must be correspondingly assured. The main means of production are processed steel (including equipment), timber, cement, and coal. The current balance coefficient for amounts of materials that key state projects require is 6,000 tons of processed steel per 10,000 yuan investment in fixed assets. Not only for processed steel but for other principal means of production as well, attention must be given to balance in amount of goods produced. However, this balance must be consistent with the magnitude of value; it may not violate the laws of value. Otherwise, there can be no balance in the amount of goods produced.

Equilibrium between social commodity purchasing power and social commodity retail sales. Equilibrium between social commodity purchasing power and commodity sales is the greatest expression of aggregate balance. Inflation is also reflected ultimately in this realm. During the first 30 years following liberation, the ratio between the amount of money in circulation and total retail sales was generally one to eight. After 10 years of reform, it was around one to four in 1989. In order to maintain rough balance between currency purchasing power and the supply of commodities, and maintain economic stability, the rate of price inflation over the next 10 years must be held at between 3 and 5 percent.

This will also create a fine climate for price reforms. In addition, commodity purchasing power is spent on food, clothing, items used in daily life, fuel, and housing. If the percentage of purchasing power spent on food is small, this shows a fairly high level of economic development. In 1955, China's Engels coefficient was 56 percent, food accounting for approximately half. During the past 10 years, the percentage spent on food has declined.

Equilibrium between foreign exchange receipts and disbursements. The result of national foreign trade activities is expressed in the balance between international receipts and disbursements accounting. The principle involved in achieving balance between international receipts and expenditures is not to damage domestically balanced interim exports and introduce inflation from outside the country. This principle requires maintenance of rough balance between exports and imports, or exports slightly larger than imports. In the use of exchange rates to settle imports and exports, the Chinese People's Bank Main Office setting and readjustment of the overall exchange rate level to rationalize exchange rates helps advance equilibrium in the international balance of payments. Floating exchange rates may be used under state macroeconomic control.

The indicator system for macroeconomic equilibrium is formulated on the basis of various accounting indicator systems closely related to national economic activity. It reflects in a comprehensive way the relationship between the aggregate amount of goods (including labor services) that the country has produced during a certain period and currency payment requirements. It uses the new national economy accounting system as a basis. In this system there are 10 major indicators of balance as follows: the balance between total supply and total demand, the industrial structure alignment and balance; the balance between national income production and use, the balance between sources and use of fixed asset investment funds, the balance between the use and source of accumulation funds, the balance of total consumption, the balance of capital flow, the balance between the use and sources of principal commodity goods and materials, the balance of overall government financial credit funds, and the international balance of payments. (Table showing balance among the 10 major indicators omitted).

2. Macroeconomic regulation and control system. This consists primarily of the macroeconomic regulation and control goal system and policy methods. The job of macroeconomic regulation and control is to divide up between central government departments concerned and local governments the overall balance policy indicators that the balance system calls for, each of them implementing their portion. It is also to set up "cages" [sic; presumably means for removing inflationary currency from circulation] for the economic activity of central government departments and local governments, monitor them, and apply policy measures on the basis of monitoring results, regulating and controlling principal macroeconomic activity in a timely and appropriate

fashion. The main entities in macroeconomic regulation and control are the central government and local governments, the central government controlling. The object of macroeconomic control is the market, government intervening macroeconomically in markets. During the short-term however, until such time as the limits of government activity are clearly defined, a lack of separation between government administration and enterprise management exists, and markets are imperfectly developed, local governments, as well as large mainstay enterprises and entrepreneurial groups are the objects of macroeconomic regulation and control.

The goals in setting up macroeconomic regulation and control are the main tasks in macroeconomic regulation and control. The main goals of each country in macroeconomic regulation and control differ at different periods of time. China has seven main goals in macroeconomic regulation and control during the 1990's: First is a suitable economic growth rate. Over the next 10 years, the economic growth rate should be maintained around 5 to 6 percent, with slight fluctuations between one year and another. Second is a relatively low inflation rate. For the first five years, the goal of currency control must change from the present  $M_0$  to  $M_1$ . During the second five years,  $M_2$  must be brought under control. The inflation rate may not exceed 5 percent, and should best be no more than about 3 percent. Third is proper control over the overall scale of credit and the overall interest rate level. So long as there is overall control, loan interest rates may fluctuate around the central bank standard interest rate or the rediscount rate. Fourth is the tolerable fiscal deficit and subsidies. The fiscal deficit may not exceed the fiscal budget by more than 5 percent. No longer can fiscal subsidies continue to increase year after year; they may not exceed one-third of government disbursements. Fifth is a low rate of price rise. During the 1990's, the overall price level must be held within 5 percent; some flexibility is to be permitted from year to year, but this figure may not be exceeded by more than 3 percentage points. Sixth is maintenance of a fairly good city and town employment rate. In view of the country's circumstances, the unemployment rate has to be maintained at around 5 percent. Seventh is an overall balance of international payments. Foreign trade exports should be slightly greater than imports to assure a balance of payments in foreign trade imports and exports. The foreign exchange balance on hand during any given period should be slightly larger than or equal to the foreign exchange balance on hand during the previous period in order to insure a balance of foreign exchange payments.

Macroeconomic regulation and control policy methods are to be flexible and ever changing; they may be amplified and perfected only through practice. However, under ordinary circumstances, policy measures of three kinds may be used as stated below.

Currency policy measures. Currency policy is the most important measure for regulating and controlling overall balance. the main goals of a country's currency policy

may differ at any given time; however, generally speaking, there are three main goals of currency policy: to stabilize prices, to promote economic growth, and to bring about a balance of international payments. The most important goal is to protect the stability of the renminbi. This is done largely by the central bank's currency policy that regulates overall macroeconomic balance, and the implementation of currency policies in fairly well developed and perfected financial markets. At the present time, China is in process of carrying out changes in macroeconomic regulation and control through currency policy. Stimulating and developing the economy depends mostly on the specialized banks operating under the regulation and control of central bank currency policy, the specialized banks regulating the scale of credit on the basis of central bank loan interest rate (or rediscount rate) parameters. The central banking system may use a branch bank system, setting up branch banks in large economic centers to exercise macroeconomic regulation and control over such economic centers. To achieve the goal of straightening out the banking system and setting currency policy, more will have to be done in the way of applying flexible and effective regulation measures such as financial reserves, re-lending, and interest rates; actively fostering financial markets, developing multiple financial forms, and making full use of the role of finance in macroeconomic regulation and control. In general, the application of currency policies should be done in the following ways. When economic growth is too low and during periods of economic slump, the supply of currency should be expanded as a means of lowering interest rates and stimulating total demand. During periods of economic overheating and inflation, the amount of currency should be curtailed and interest rates raised to restrain overall demand. Currency policy has certain limitations; various factors limit its application. Use of this single regulation and control policy alone will not suffice. Under China's present circumstances, in particular, the role of currency methods is limited; therefore, macroeconomic regulation and control policies have to be used in a coordinated way.

Government taxation policy measures. Government receipts and expenditures are of three kinds: taxation, investment or purchases for policy purposes, and transfer payments. They are fiscal policy alternatives and measures, and they have become parameters for regulating the level of market prices and the level of interest rates. Taxation and transfer payments regulate the overall macroeconomic balance. How does China use government tax revenue macroeconomic regulation and control measures? First, it must use the regulatory and control role of the national budget, do a good job of managing budgeted receipts and expenditures, and regulate the structure of budget expenditures to make the economic structure more rational. At the same time, it cannot arbitrarily reduce revenues or increase expenditures. Second, it makes use of the role of government subsidies and enterprise finances as levers, making rational use of government subsidies to increase control and monitoring of enterprise finances. Third is full use of

the regulatory role of taxation. In a commodity economy, the relation between the central and local governments, the state and enterprises, and the state and consumers depends on the scale and coordination of revenues. Therefore, making fullest use of the regulatory role of tax revenues requires a unified tax code, a rational division of taxing authority, a simplification of the tax system, and fair taxation to avoid and prevent reverse adjustments [nixiang tiaojie 6627 0686 6148 4634] of tax revenues. Fourth is the strengthening of control and the channeling of extrabudgetary funds so that their use is consistent with macroeconomic development requirements.

How to make concrete use of fiscal revenue policy. The general guidelines are as follows: When the speed of economic growth is too low and during an economic slump, the government should increase expenditures and reduce taxes to stimulate an expansion of total demand. During periods of overheating of economic development and inflation, the government should reduce expenditures and increase taxes to restrain demand and eliminate inflation. However, implementation of tax collection policies also entails certain difficulties, and restraints from various interest groups. Associated regulation and control is necessary, otherwise a "reverse adjustment" [nixiang tiaojie] may ensue.

Plan regulation and control measures. Plan regulation and control is a form specific to and an essential characteristic of a socialist economy. Market economies also need plan regulation. China's plan mostly has to solve the balance between total social supply and demand and principal proportional relationships, as well as to set economic and social development goals. This is a concentrated expression of the superiority of a plan economy. Plan regulation and control is realized through four means as follows: (1) Plan decision making, which is macroeconomic planning of long-term economic development goals on the basis of actual examination of economic activity for the formulation of appropriate economic growth rates and attendant plans for quantitative balance. (2) Economic policies, which are mostly the means whereby government uses economic means to put economic activity on the plan track. This includes industrial, technical work force, wage, fiscal, and price policies, and making planning decision norms and figures a reality. (3) Economic levers are a concrete expression of plan policy. Economic levers include tax rates, interest rates, prices, the inflation rate, wages and the labor productivity rate, foreign exchange rates, and government subsidies. Plan, policies, and levers are three parts of a single whole that are used in a comprehensive way. They are the main means and substance of plan regulation. (4) Economic information and economic laws and regulations augment implementation of the three preceding measures.

In order to carry out plan regulation and control effectively, the State Planning Commission has to change functions. It has to look after plan balance only and not

directly administer investment. It should turn investment over to an organization such as a state investment and development bank to raise money for use. Thus, it would truly become a comprehensive macroeconomic balancing organ in charge of coordinating the relationship among investment, fiscal matters, and finances. However, to do this does not prevent the state from having a certain direct, macroeconomic regulation and control authority.

3. The early warning and monitoring system for macroeconomic regulation and control. An early warning and monitoring system must be built to make timely and accurate comprehensive judgments about the state of macroeconomic operation, and to prevent the appearance in the economic operating process of events that depart from the normal track, or the occurrence of crises to provide scientific data for macroeconomic regulation and control. In 1987, the State Statistical Bureau began monitoring and analysis of macroeconomic activity. Its principal monitoring criteria are as follows: gross industrial output value; total commodity retail sales; sales income of industrial enterprises within budget that are under ownership of the whole people; net purchases of domestic commodities; investment in capital construction under ownership of the whole people; the amount of money in circulation, money in the narrow sense, industrial loan balance, bank wages and others payments to individuals; price indices for staff member and worker living expenses; prices of country fair consumer goods; and volume of transactions of the Ministry of Foreign Economic Relations and Trade. These serve as basic criteria for monitoring macroeconomic activity and effectiveness. Naturally, this quota system requires perfection.

There are five overall warning areas in the early warning system as follows: "double red light areas" that show serious overheating of economic development that require the adoption of strong macroeconomic retrenchment policies; "red light areas" that show that the economy is already overheated requiring moderate retrenchment policies; "yellow light areas," which are warning areas that show instability in the operation of the economy that may become hot or stabilize in a short period of time and for which macroeconomic regulation and control policies must be set as circumstances warrant; "green light areas" that show economic growth to be moderate and fairly staple; and "blue light areas" that show too low a speed of growth that requires the adoption of measures such as expansion of investment to stimulate economic growth.

4. The macroeconomic regulation and control organizational system is made up of the macroeconomic decision-making system, the planning coordination system, the monitoring and early warning system, the information transmission and feedback system, and the administrative supervision system. On these five systems is erected a high level and powerful macroeconomic regulation and control operating system. The establishment

of a state macroeconomic regulation and control organization is recommended in which planning, government financial, tax, banking, assets control, price, materials, business, foreign trade, labor, auditing, statistics, and legal system units take part, with the holding of regular meetings to study and decide major problems in state macroeconomic regulation and control. Local governments may use this organization as a model for the building of their own individual local macroeconomic regulation and control organizational structure.

#### **Step-by-Step Building of a Macroeconomic Regulation and Control System Framework, and Making Changes in the Macroeconomic Mechanism**

It is necessary to establish a macroeconomic equilibrium regulation and control system framework and change the mechanism on the basis of the country's circumstances and the continuity of the economic process. Full preparations must be made, and action taken step by step. First of all, people are accustomed to ways of obtaining benefits built up over a long period of time, means of gaining key elements and inputs, and means of relaying information in an established system. Any abrupt change in the system or mechanism resulting from incomplete preparation may interrupt the economic operation process. Second, macroeconomic reform must go hand in hand with microeconomic reform and market development. It can neither move ahead or lag behind; otherwise, regulation and control dislocations or reverse adjustments may ensue. Third, macroeconomic regulation and control is itself a process of gradual perfection and a process in which people become familiar with it, apply it, and master it. If a new system replaces the old before conditions are ripe, internal turmoil may be created within the macroeconomic regulation and control system. Therefore, establishment of a macroeconomic regulation and control system cannot be accomplished overnight. The climate and conditions that must be prepared to establish a macroeconomic regulation and control system are as follows:

Separation of politics and economics, and separation of government administration from enterprise management to ensure the best interests of both producers and administrators. As the principal entity in macroeconomic regulation and control, government should first define its own behavior. It has to separate government's macroeconomic management functions from its function as custodian of property belonging to the whole people. As the manager, the government cannot directly conduct investment or business activities. Investment activities should be turned over to a professional financial institution to handle, and government should designate a special organization to manage state assets. In carrying out the economic management functions macroeconomic regulation and control largely performs, only after government powers have been split up can government assure the energetic implementation of all powers and effectively carry out macroeconomic regulation and control. Once the government's own functions

have been clearly defined, it must cut loose all subordinate enterprises, enabling them to have a true position as juridical persons operating independently with responsibility for their own profits and losses, the state indirectly managing enterprises through market regulation and control. This is the only way to ensure that the enthusiasm of all enterprises will be brought into play.

Make economic methods primary while making comprehensive use of other regulation and control methods. China's macroeconomic management has shifted away from balance in amounts of goods and materials to balance in the amount of value; therefore, the macroeconomic regulation and control measures used must also use economic methods of regulation and control primarily. Economic regulation and control measures are made up of a fairly complete policy system and economic levers system. The policy system is largely the principal entity in terms of the country's long-range economic policies. It readjusts and controls the direction and goals of economic activities. The lever system applies price, taxation, interest rate, exchange rate, and wage levers under guidance of macroeconomic regulation and control policies to ensure fulfillment of macroeconomic regulation and control tasks. In addition, it conducts direct control through necessary administrative means. At the same time, it augments them with legal methods, combining both direct and indirect macroeconomic regulation and control measures. In short, the particular stress of these various macroeconomic regulation and control measures differs: Economic development plans are used on macroeconomically regulated and controlled long-range goals; economic measures are used mostly for periodic and annual regulation; administrative means are used quite a bit for random regulation and control; and legal methods are used to formulate management regulations for functional departments and to ensure realization of social goals. These various measures, although differing in emphasis, encompass matters of different natures in the implementation process.

Clear-cut unity of responsibilities, authority, and benefits to ensure flexibility and effectiveness in the macroeconomic regulation and control system; failing to regulate and control or reverse adjustment is not permitted. First of all, the correlation among plan, government finance, and finance has to be straightened out, the full, coordinated role of plan brought into play, preparing plans that the availability of government finance and credit funds makes possible. Planning units must produce economic growth goals, and the treasury and banks must produce information about the actual availability of financial resources and funds to produce comprehensive plans. Second is rebuilding of the national economic accounting system, the statistical indicator system, and the organizational system. Even though present statistics about the magnitude of value and present accounting provide some value indicators, they cannot completely reflect all the relationships in the operation of the national economy. They are unable to meet needs in

formulating macroeconomic balance and regulation and control. Therefore, the establishment and perfection of magnitude of value statistical indicators and standardized accounting indicators for the entire national economy is fundamental to the building of a macroeconomic regulation and control system. The building of an indicator system also entails the building of an attendant operable, estimative statistical model system. At the same time, an attendant organizational system should be built that includes information feedback, auditing supervision, and coordinated organizational mechanisms to enable macro economic regulation and control to play a flexible, timely, unified, coordinated, and full role. Unity of centralization and decentralization in the building of an echelon-by-echelon regulation and control system in which central government regulation and control is paramount. Central government regulation and control means regulation and control of macroeconomic equilibrium. Local government regulation and control must be subordinate to central government regulation and control. Local governments also need a certain amount of regulation and control authority. The central government and local governments must make a rational division of labor and coordinate with each other completely. Both central government and local government macroeconomic regulation and control has to both control and serve microeconomic activities. They must cause all production and operating units to have enthusiasm and vitality; they must pay full attention to their economic returns, using returns as an inducement to make local government and enterprises' prescribed returns patterns and long-range economic returns be consistent with requirements of macroeconomic regulation and control goals in the good handling of the benefit relationship among the state, local governments, and enterprises.

External conditions and step-by-step transitional measures needed for macroeconomic regulation and control.

All central government departments to make a change from central government ministry control toward integration, centralization, and coordination, breaking the existing pattern whereby of ministry control from top to bottom by all central government ministries. This entails integrating the functions of all specialized units to effect coordination, control, management, guidance, and service throughout society as macroeconomic regulation and control requires. This will enable mutual equilibrium among macroeconomic components in charge in all departments, and also enable enterprises truly to become principal market entities to promote the shaping of a unified socialist market.

Industrial management to take the place of the existing central government ministry control for a change in enterprises' management subordination. Within further definition of enterprises' property rights and an equitable sharing of returns with owners, state assets control units can further separate enterprise ownership authority from administrative and managerial authority, thereby demolishing or breaking down central government ministry direct management, regulation, and control of

enterprises. Enterprise management should be organized and carried out by industries. Different kinds of industrial societies and craft trade unions can be organized for the socialization of enterprise management, creating the conditions necessary for enterprises to compete as equals in markets.

Formation of large entrepreneurial blocs for the purpose of establishing modern enterprise management. The insulation and separation of enterprise subordination to departments or local governments that is not in keeping with the management system needed for modern large scale production should be demolished. Enterprises should found large enterprise blocs that cut across regional, ownership, industrial, and even national lines as socialized large scaled production requires, using these blocs to spur optimization of the country's industrial structure and development of its economy, thereby taking a road that is consistent with management of the country's modern enterprises.

The division of operating authority and tasks of local enterprises is such that local governments are responsible primarily for local agriculture and public utilities. In matters pertaining to enterprise investment and local government investment in the expansion of reproduction, the economic development corporation or the holding company are responsible, local state-owned assets control units clearly defining property rights. The government can have the holding company act as a shareholder, intervening when necessary in enterprises' production operations. At the same time, various forms of investment such as share purchases, watered stock, and sole proprietorships can guide participation in economic activity. In this way, funds may be gathered from a wide variety of sources for use as finance capital, the better to open up and manage local public utilities and economic construction. When making investment in the economy, central government and local government administrative departments alike must go through economic organs such as holding companies and economic development companies. They may not directly hook up with administrative departments to use administrative measures to carry out such economic activities.

Destruction of the separation between higher and lower echelons, setting up two-tiered economic region organizations where conditions permit. Central government regulation and control agencies may be set up in the Zhu Jiang Basin, the Chang Jiang Basin, the western region, and in the area around Bo Hai, as well as in historical economic centers and the larger commodity collection and distribution points. Examples include central bank branches, National Tax Bureau agencies, and State Planning Commission fully integrated branches and sub-branches to guarantee and put in place two-tiered macroeconomic regulation and control systems in organizational agencies.

**Importance of Promoting Production Factors**

*HK1904063191 Beijing JINGJI GUANLI in Chinese  
No 12, 5 Dec 90 pp 4-9*

[Article by Zhang Yanning (1728 1750 1337), edited by Liu Qichang (0491 0366 2490): "Promote the Circulation of Production Factors To Promote Readjustment of the Economic Structure"]

**[Text] I. The Importance of Promoting Circulation of Production Factors**

Promoting the rational circulation of production factors is an important task of strategic significance. This is a basic conclusion obtained through overall analysis of the relationships between economic development, economic benefits, the economic structure, and the circulation of major production factors. In brief, a current crucial factor restricting the economic development of the national economy is that economic benefits are low. A major reason for this is that the economic structure is irrational. Promoting the rational circulation of production factors is an important and effective measure for readjusting and optimizing the economic structure. It is in this sense that we speak of this as a major matter affecting the overall situation and influencing the long-term situation.

**First, the key to guaranteeing the sustained, stable and coordinated development of the national economy lies in improving economic results.**

Since the establishment of the PRC, our country's development rate has been quite high. From 1979 to 1988, the average annual growth in GNP was 9.6 percent. From 1953 to 1988, the annual average growth in gross industrial output value was 11.8 percent. Such a rapid development rate has rarely been seen in any country in the world. However, our high growth speed has relied on high investment and high consumption. In terms of investment, from 1953 to 1988, the level of fixed-asset investment in whole-people ownership units grew at an annual 12.2 percent, higher than the growth in both GNP and gross industrial output value. Seen from the consumption angle in our country's industrial production, the consumption of energy per unit of net output value has not only been higher than in developed countries, but also higher than some developing countries. In terms of benefits, there are two indices which can comprehensively reflect the economic situation of production and construction. One is the "benefits contribution rate." This is the proportion which the increased net output value created by raising the use efficiency of capital constitutes in the overall newly added net output value. In our country, the benefits contribution rate is about 20 percent, while in 12 developed countries, including the former FRG, the figure is about 50 percent. The figure for 20 developing countries, including Argentina, is about 30 percent. Our country quite obviously lags behind. Another index is the proportion between average fixed assets per worker and per capita net output. At present, the per capita fixed assets for staff and workers

in our country is four times that of low income countries but the per capita net output is only 50 percent higher, way behind the figure for developed countries.

The figures quoted above show that our country's economic development is characterized by high speed and low efficiency and high input with low output. In such a situation, it will be very difficult to guarantee the sustained, stable, and coordinated development of the national economy. This is because, although a high speed can bring a growth in profits and financial income, it concurrently requires a large volume of input funds and material consumption. When the funds and materials cannot sustain the high development rate, it is necessary to carry out readjustment. Through the readjustment, the contradictions caused by insufficient funds and materials will be alleviated but, at the same time, the development rate will fall leading to a slide in profits, a reduction in financial income, and the emergence of new difficulties. Since the establishment of the PRC, our country's economic development has seen several rises and falls and the situation noted above is one of the major reasons for this. Thus, if we are to free ourselves from this difficult situation and realize the demands for sustained, stable, and coordinated development, we need to improve economic benefits and, on the basis of high efficiency, maintain an appropriate development rate.

**Second, a major aspect in the improvement of economic benefits is structural readjustment and optimization.**

The improvement of economic benefits requires managerial and technological improvement in enterprises, so that microeconomic benefits are improved. It also requires that the scientific nature and optimal structure of macroeconomic decisionmaking is guaranteed, so that macroeconomic benefits are improved. Below, I will discuss the effects of the irrational economic structure on economic results and, thereby, it will be possible to see the major role an optimized economic structure plays in improving economic results.

1. The influence of an irrational industrial structure on economic results. In our country the development of manufacturing industry has exceeded the development of basic industries, resulting in a shortage of energy and raw materials. For many years now, one-third of the production capacity has lain idle for want of electricity, while one-third of the engineering industry has lain idle for lack of steel products. The ratios between the various production departments are uncoordinated and this situation is getting worse. In 1988, the output value of manufacturing industry grew by 23 percent, while the output value of industries producing raw and semifinished materials grew only 10.8 percent. If this situation is not corrected in a timely way, it will result in a further decline in economic benefits.

2. The influence of the irrational product mix on economic benefits. This influence is mainly manifested in two aspects: The first is that the product mix cannot accord with the changes in domestic market demand,



meaning that the supply of products required by society, especially high-grade products, cannot meet demand and the products which society does not need are stockpiled in large volumes. According to estimates by relevant departments, at the end of 1989, the commercial system and sales and marketing system had stockpiled commodities to the value of 161.46 billion yuan. Of these, 10 to 15 percent were stockpiled due to stagnant sales. In 1989, the losses of industrial enterprises within the budget throughout the country totaled 13.6 billion yuan. Quite a proportion of these losses resulted from products not having a market. In another respect, the product mix cannot accord with changes in the international market and some products have to be sold at low prices, resulting in foreign exchange costs continually rising and foreign trade subsidies continually growing. This seriously affects economic benefits.

3. The influence of the irrational enterprise organization structure and economic results. At present, the organization and structure of enterprises in our country have problems in two respects: One is that enterprises are "large and complete" or "small but complete" and they have a low level of specialization, which affects economic benefits. The other is that the same products are produced on a small scale in all areas, thereby duplicating production and preventing economies of scale being realized. This also affects economic benefits. For example, the number of vehicle assembly plants in our country exceeds the total of those in the United States, Britain, Italy, and the FRG, but the majority are small-scale operators providing low-level products. If we exclude the No. 1 and No. 2 Vehicle Factories, the average annual output of the other plants is only 4,000 vehicles each, far lower than the 100,000 to 300,000 required to constitute an economic scale. Further, the majority are "all-round factories" and the proportion of specialized cooperation for parts does not exceed 20 to 30 percent. Abroad, the figure is over 60 percent. The low profit rate on funds in our country's enterprises at present results from many factors, but the low level of specialization and the fact that the majority of factories have not achieved economies of scale are two of the major reasons.

The three situations noted above show that if we want to raise economic benefits in an overall way, it is necessary to readjust and optimize the industrial structure, the product mix, and the enterprise organizational structure.

**Third, the rational circulation of production factors is a major measure in structural readjustment and optimization.**

Practice has proven that if we ignore the rational circulation of stock assets and rely solely on preferential policies for newly added assets, it will limit the results of structural optimization. The policy whereby, on the basis of a rational circulation of stock assets, there is a slanted orientation in newly added assets, is a way to improve the results of structural optimization. This is determined by the following several situations:

1. The current economic situation in our country is very irrational and, in such a situation, if the stock assets do not circulate and, in structural readjustment, we rely purely on increasing assets, the results will be limited in two respects: First the policy of slanted increase in assets can only support the enterprises which we need to develop and cannot eliminate those enterprises which do not need to be developed. If the enterprises which should be eliminated continue to exist, this will affect structural readjustment and optimization in an overall way. If we combine the two measures, not only will the enterprises which we need to develop obtain support through the slanted policy for adding assets, but the enterprises which should be eliminated will be reorganized through merger and alliance. This will improve the results of structural readjustment. Second, the maintenance of those enterprises which should be eliminated requires a certain amount of funds. If these enterprises are absorbed by strong enterprises, this amount of funds could be saved and used for supporting enterprises which should be developed. At the same time, the stock assets of the merged enterprises can be used in supporting the enterprises which need development and, thereby, improving the results of structural readjustment.

2. At present, the situation whereby some production capacity lies idle while duplicate construction continues to proceed, coexists; a lack of new investment and poor efficiency in the use of current assets coexists; and a situation where the production of some products cannot meet demand while other products are being stockpiled coexists. These three coexisting situations show that the circulation of production factors is not only an objective need, but also a real possibility. In recent years, over 6,000 properly performing enterprises throughout the country have absorbed over 7,000 poorly performing enterprises. This involved the transfer of over 8 billion yuan in fixed assets and played quite a role in structural readjustment. If there is further development in the circulation of production elements, it will play an even greater role.

3. The amount of new investment which our country can use in structural readjustment is not great. Seen from the situation over the last few years, the amount of new investment really used in structural readjustment has not exceeded 40 or 50 billion yuan annually. Such an amount can only play a very limited role in readjusting the structure of current assets which total over 160 trillion yuan in value (productive assets constitute over half of this). Further, it will be very difficult within the next few years to greatly increase new investment. If we are able to achieve the circulation of existing stock assets, this can be combined with the slanted policy for newly added investment and will improve the results.

Summing up the above ideas we can say: If we want our country's economy to escape from the current difficulties and maintain sustained, stable, and coordinated development, the key lies in improving economic benefits. In improving economic benefits we must do work in various areas, the readjustment of the economic structure



being a major aspect. Readjusting the economic structure not only means a preferential policy for added assets, but also needs the rational circulation of stock assets. Only by combining these two aspects will it be possible to improve results. In this sense, promoting the rational circulation of stock assets, that is to say, promoting the rational flow of production factors, is an important link in the overall development of the national economy.

## **II. The Current Basic Situation in Production Factor Circulation**

In recent years, various areas throughout the country have engaged in beneficial exploration and done much work in the area of promoting the circulation of production factors. The provinces and cities of Heilongjiang, Hubei, Sichuan, Jiangsu, Zhejiang, Shanghai, Tianjin, Henan, Hebei, Liaoning, and Jilin engaged in this quite early on and saw quite swift development. The other provinces, cities, and autonomous regions have also seen development to differing degrees. In brief, there have been the following several characteristics:

### **First, in the scale of production factor circulation, a trend of change from small to great has occurred.**

The trend from single-element circulation of production factors to overall circulation of such factors; the trend from enterprises contracting other enterprises to enterprises absorbing other enterprises; the trend from horizontal alliance and participatory or controlling shareholdings to the organizing of enterprise groups; and the trend from joint operations within a certain scope to complete merger of operations and assets, are all now deepening. At the end of 1989, over 1,630 enterprise groups had been developed throughout the country and the contracts, leasing, and participatory and controlling shareholdings between enterprises were also gradually developing.

The year 1989 was quite a vibrant year in terms of the various forms of production factor circulation. If we take mergers as an example, throughout the year over 2,300 enterprises absorbed over 2,500 other enterprises, constituting 37 percent of the total number of mergers in the last few years.

### **Second, in the modes and methods of production factor circulation, a trend of diversification has appeared.**

In terms of the modes, there are, in summary, seven types: Single element circulation of equipment or personnel; the auction of small enterprises; enterprises contracting for other enterprises; enterprises leasing other enterprises; enterprises merging with other enterprises; horizontal alliance; participatory or controlling shareholdings between enterprises; and the organizing of enterprise groups.

In terms of methods, there are administrative transfers and comprehensive transfer of property rights. In the compensated transfer of property rights, there is the

purchase mode, the assumption of liabilities mode, the participatory or controlling shareholding mode, and the mode whereby shareholdings are drawn in. For the various methods there has, in the majority of cases, been active guidance by the government and the enterprises have participated voluntarily and in accordance with the principle of mutual benefit. Thereby, a quite high success rate has been guaranteed.

The diversification of modes and methods has provided a wide leeway for choice in the circulation of production factors, is in accord with differing situations and different needs, and plays an important role in achieving broader and deeper development in the circulation of production factors. For example some areas, in order to reduce psychological impediments, have adopted the method of first implementing contracts and then implementing mergers. In this way, during the contract period, the staff and workers of the two enterprises learn the benefits of operating together. Subsequently, the merger is arranged and assets are merged. Some areas, because their mergers are across regions and there are many contradictions with the existing systems, implement leasing or participatory or controlling shareholdings, so as to guarantee the smooth circulation of production factors.

### **Third, in the aims of productions factor circulation, there has appeared a trend of general deepening.**

In the early stage, many of the contracts and leases, as well as mergers, between enterprises were intended to provide a way out for loss-making enterprises. They were only measures to turn losses into profits and positive results were achieved in this respect. Following the passage of time, and the raising of understanding, there has been a continued deepening of the aims of promoting production factor circulation in many areas. These have been seen as effective measures for readjusting and optimizing the economic structure. For example, some areas have developed enterprise groups. First, in accordance with the demands of the product mix, they determined the outstanding products of the area. Then, in accordance with the needs of developing outstanding products, the relevant departments are reorganized and merged, forming various large companies producing outstanding products. Finally, with these large companies as the center, enterprise groups are formed through different forms of alliance. In this way, systems reform, economic development, and structural readjustment are organically combined.

### **Fourth, in the guiding role of the government, a trend of gradual strengthening has appeared.**

In the early stage, the circulation of production factors mainly occurred spontaneously between enterprises. Subsequently, many local governments actively strengthened leadership and consciously promoted development. Seen from the situation last year, the guidance role of government has been further strengthened and this has been further manifested in three aspects: 1) Leading

groups and work organs have been established, managing departments have been assigned, and a coordination system has been established; 2) Legal documents setting down management methods and work procedures have been issued, resulting in the circulation of production factors gradually becoming standardized; and 3) Support policies have been formulated to promote the circulation of production factors.

**Fifth, in the intermediary role of the market, a trend of gradual expansion has appeared.**

In the course of circulation of production factors, some enterprises have wanted to merge with other enterprises while other enterprises have been seeking ways out of their difficulties, but have been unable to find appropriate targets. In such a situation, all sides have felt it necessary to establish a property rights trading market. Since May 1988, when Wuhan City established the first enterprise merger market, until the end of 1989, a total of 25 property rights trading markets have started business around the country and now form a network of links around the country and exchange information. This creates conditions for transregional circulation of production factors.

The appearance of property rights trading markets has provided trading venues for the circulation of production factors, provided opportunities for open and equal competition, and provided a wide leeway of choice for both buyers and sellers. According to the property rights market in Chengdu, the circulation of production factors through property rights trading markets has two clear characteristics: 1) There is quite wide competition and choice and it is easier than before to find suitable trading partners and reasonable trading prices. 2. Intellectual property rights have begun to enter the scope of production factor circulation and now intangible assets such as trade marks, patents, brand names, and technology secrets are merged together with tangible assets, resulting in further deepening in the circulation of production factors.

The five characteristics mentioned above are overall, general trends, but in fact, in some regions the circulation of production factors has just begun and not all areas have seen the five characteristics mentioned above. Even in areas where the development of production factor circulation has been quite swift, the above five characteristics exist only as trends and are far from have realized any completeness.

At present, in the circulation of production factors many difficulties and problems exist which are mainly manifested in the following several respects:

**First, obstacles on the ideological and conceptual level.**

These obstacles are mainly reflected in three aspects: 1) An insufficient understanding of the important role of the circulation of production factors, resulting in implementation remaining at the level of general calls, without any down-to-earth, powerful, and real measures; 2) The

managing departments in some enterprises are afraid that if enterprises under their jurisdiction are absorbed by others, they will "lose face" and "lose territory." Thus, they not only do not support such mergers, but adopt a negative attitude and sometimes even obstruct them. The leading cadres of some enterprises set for absorption by others fear that if their enterprise is absorbed, they will be subject to public opinion saying that they are incapable. Thus, they do not adopt a positive attitude to the merger. The attitudes of the staff and workers of some enterprises are also quite complex and some have a "sense of loss"; and 3) Some persons have not seen enterprise mergers under socialist conditions and do not understand that the aims, methods, and results are essentially different from mergers under the capitalist system and thus they have misgivings.

**Second, the obstacles in the existing structure.**

The circulation of production factors, and particularly transregional circulation, faces quite great contradictions with the existing structure. For example, of over 6,000 enterprise mergers, only three percent were transregional. Such transregional mergers have really just begun. Enterprise groups find such mergers extremely difficult and they face many problems in trying to develop a transregional coordinating level. Of these problems, the major ones are those related to: The financial contract system; the system whereby investment, credit, labor and wage targets are handed down level by level in each region; the system of raw materials supply; and so on. If we want to further promote the circulation of production factors, and especially transregional circulation, the systems mentioned above will have to be appropriately reformed.

**Third, there is a need for powerful policy support.**

The rational circulation of production factors is a major element beneficial to overall economic development and it is necessary to study and formulate corresponding support policies. However, at present, several policies are not beneficial to the circulation of production factors. For example, some poorly performing enterprises are greatly in debt and are unable to discharge their liabilities, but their creditors do not have the power to do anything. As soon as a properly performing enterprise absorbs a debt-laden enterprise, all the creditors come seeking the payments due them, with the result that the properly performing enterprise cannot bear the burden. Also, when collective enterprises are absorbed by whole-people enterprises, some localities stipulate that the collective staff and workers must be treated as persons employed outside the plans. However, since last year there has been a clearing out of persons employed outside the plans and the merged collective staff and workers have also been included as targets of this clearing out. In such a situation, the staff and workers of collective enterprises naturally are not willing to have their enterprise absorbed by whole-people enterprises. For such situations, relevant policies need to be formulated.

**Fourth, overall coordination is relatively poor.**

The circulation of production factors involves over 10 departments, including the industrial and commercial department and the taxation, labor, banking, land, and real property departments. Thus, it is necessary to do well in organizing coordination between the departments. However, some areas still have not made clear which managing department is responsible for coordination, while in other areas the managing departments assigned to coordinate have very weak power. In other areas, the various comprehensive departments control everything. Thus, when enterprises want to go through the relevant merger procedures, they have to "bow to the mountain spirit and then bow to the earth god" and the enterprises, fed up with the troubles and vexations, eventually give up. This affects the circulation of production factors.

**III. There Is a Pressing Need To Further Promote Circulation of Production Factors**

In our country, the development from single-item circulation of production factors to overall circulation of production factors, with the enterprises as the carriers, can be said to be a big step forward. However, up till now, if we look at the situation throughout the country, we must say that the circulation of production factors is still an isolated and scattered activity. In order to further promote this work, the basic demand is the development of guided, organized, and planned action.

If we are to promote the rational circulation of production factors in a guided, organized and planned way, we need to especially stress the following points:

**First, unifying ideological understanding.**

At present there is a need to properly resolve three issues: First, we have to fully understand that promoting the rational circulation of production factors is a strategic task influencing the overall situation and having deep effects. Second, we must fully recognize that promoting the rational circulation of production factors is a point of integration linking economic development, economic improvement and rectification, and the deepening of reform. Third, we must fully recognize that the current utilization rate of assets is still quite low and that there is a need to improve the output of existing assets through the rational circulation and optimal arrangement of production factors.

The practical experiences in Heilongjiang Province and other areas prove that resolving these three issues properly is the ideological basis for promoting the rational circulation of production factors in a guided, organized, and planned way. The differences between various areas in this work primarily derive from differences in ideological understanding, while the key to whether or not the various relevant departments can tightly coordinate and act in harmony also lies in whether or not they have a common ideological base.

**Second, correctly guiding the direction of production factor circulation.**

In determining the direction of the circulation of production factors, it is necessary to follow two basic principles: 1) It must accord with state industrial policies; and 2) It must bring into play the superiorities of the various regions. Stock assets must flow towards superior products, while newly added assets must also be slanted towards superior products. In this way, not only will each region be able to form its own characteristics, but throughout the country we will be able to create an aggregation of superior products and achieve coordinated development at a high level. If the circulation of production factors is divorced from the guidance of state industrial policies, and from the policy of bringing into play the superiorities of each region, then it is possible that our structural "readjustment" will be one in which blockades are formed between regions and that this will strengthen the tendency toward structural similarity between regions.

Whether or not we can correctly guide the direction of the circulation of production factors will affect whether the achievements in this work are great or small and, thus, this aspect must be given sufficient attention. Heilongjiang Province planned the direction of production factor circulation on the basis of a full survey of the actual situation in the province. Every area has its own specific situation and we cannot put forward "standard, unified" requirements. However, promoting the rational flow of production factors is a common task we all face. In accordance with state industrial policies and bringing into play regional superiorities are the common principles in setting down the orientation of production factor circulation, while making decisions on the basis of investigating and studying the actual situation is a universally applicable work practice.

**Third, giving prominence to the major goals of production factor circulation.**

The role of production factor circulation is multifaceted and the specific forms of production factor circulation can have multiple goals. For example, through contracts, leasing, and merger between enterprises, it is possible to find a way out for enterprises which have fallen into difficulties and thereby turn losses into profits; through organizing enterprise groups, management is facilitated; and so on. All these goals are correct. However, seen in terms of long-term development, the main basic goals in promoting the circulation of production factors are structural readjustment and optimization and the improvement of macroeconomic results. A major principle in multifaceted decisionmaking is to give prominence to the major goals. It is of course very good if various goals can be considered at the same time but, if various goals cannot be given concurrent attention, structural readjustment and optimization must be placed in prime position. This demand must be manifested in all the various aspects of the actual work involved in promoting production factor circulation.

**Fourth, correctly using administrative measures.**

Under our country's current conditions, promoting the circulation of production factors requires both economic and administrative measures. These two measures have to be combined. The precondition for achieving this combination is that all sides participate voluntarily and achieve mutual benefit. In this, the key is mutual benefit, because only with mutual benefit will there be voluntary participation. The use of administrative measures does not mean that the government will take care of everything or that it will force two sides together, but rather that it will put efforts into properly doing the following aspects of work: 1) On the basis of investigation and research, it will formulate plans for the circulation of production factors and the plans will be used to guide the circulation of production factors; 2) it must study and formulate policies for coordinating the interests relationships between the various sides, so that there are policies which can be relied upon in regulating the realization of mutual benefit; 3) It must study where the contradiction lies between the existing structure and the realization of rational circulation of production factors through structural reforms; and 4) It must do well in all areas of ideological work, must adopt a long-term and overall view in looking at coordination of interests, and it must ensure that current and partial interests are subordinate to overall interests.

**Fifth, the circulation of production factors and technological transformation must be combined, and the development of a number of key enterprises must be supported.**

It is necessary to support the advanced development of a number of key backbone enterprises in order to: Achieve the sustained, stable, and coordinated development of the national economy; achieve structural readjustment and optimization; and in order to raise enterprise competitiveness in the international markets.

In the circulation of existing assets and the slanting of newly added assets, the development needs of key enterprises must be given prime consideration: 1) Conditions must be created whereby key enterprises can absorb other enterprises and support policies should be formulated; 2) Enterprise groups should be developed, centered on key and backbone enterprises; 3) Priority consideration should be given to technical transformation projects in key enterprises and such projects must be given priority guarantees for funds, goods, and materials; 4) Depreciation rates should be universally raised. If the financial administration finds this difficult to bear, the fixed asset depreciation rates for key enterprises could be selectively raised; and 5) In order to support the development of new products by key enterprises and speed product renewal, we should allow key enterprises to retain a certain proportion of sales income as new product development funds.

In brief, we must, through various forms, support the development of key enterprises so that they really

become the "main force" in national economic construction and the "national team" in international market competition.

**Sixth, there is a need to actively study and explore the issues of defining property rights boundaries and assets appraisal.**

In the process of production factor circulation and reorganization, a major problem appears. This is that it is necessary to determine property rights boundaries and engage in asset appraisal. For example, in the process of developing enterprise groups, in order to coordinate the interests of all sides there is a need to implement participatory and controlling shareholdings. Thus, there is a need to set down to whom property rights belong. In carrying out enterprise mergers, it is also necessary to set down to whom the property rights involved in the merger belong and to whom the earnings from the property rights transferred from the merge enterprise belong. The various forms of production factor circulation require reappraisal of existing assets. The improvement of the depreciation methods will also require the appraisal of assets.

**Review of 1990 Economy**

HK2204152091 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 1, 5 Jan 91 pp 7-10

[Article by Zhang Zhongji (4545 6945 1015), edited by Lin Daojun (2651 6670 0689): "Positive Results in Economic Improvement and Rectification, But In Deepening Reform Task Is Heavy and Road Is Long—A Review of Economy of 1990"]

[Text] The year 1990 has gone by and the second spring of the 1990's has come. As we bid farewell to the old and welcome the new, we are writing this article, based on statistical figures, making a review of the road traversed in economic development during the past year, and probing the road of furthering the improvement and rectification and deepening the reform, in the hope that it will be of benefit to the readers.

**I. Pleasing Changes in Economic Development**

In 1990, the State Council adopted a series of policies and measures of readjustment and retrenchment to open up markets and to promote production. Through the joint efforts made by people of the whole country, certain of the contradictions impairing production and circulation were eased, and the national economy continued to progress in a good direction of development. Encouraging changes have appeared.

A. Gross social supply and demand tended to equilibrium, and there has been an obvious reduction in the scale of increase in commodity prices. Imbalance in the gross volumes of supply and demand has been an outstanding problem accumulated through the years and affecting the economic situation as a whole. In 1988 the economy overheated; because of the double inflation of

investment and consumption, the disparity rate between social gross supply and social gross demand was as high as 16.2 percent. Following retrenchment of demand in 1989, the disparity rate dropped to eight percent. It is estimated that in 1990 the social gross supply and demand would basically realize equilibrium, and the situation of the gross demand exceeding gross supply for many years would be rectified. As a result of supply and demand becoming balanced, in recent years currency inflation with which people had all been immensely concerned has obviously been "deflated." In 1990, despite the fact that the state and the localities put into effect certain price adjustment measures, because of the fall of country fair trade prices and the weakening of the spontaneous price increase factors, from January to October, the general level of social retail sales prices rose by only 2.3 percent over the same period of the preceding year, and the rise for the whole year was about three percent. This scale of rising prices was obviously lower than the 17.8 percent level of 1989. The rise in the prices of the means of production was also reduced in scale. According to statistics of the materials information center, comparing the general level of the prices of 15 large categories of means of production with that of the same period of the preceding year, the rise in the first quarter was 7.5 percent; in the second quarter, 0.6 percent; and in the third quarter, 0.1 percent. The market prices of such materials as coal, steel products, copper, aluminum, and cement showed an obvious reduction in disparity from the planned prices. The principal cause of the rise in commodity prices has been changed from the force of pressure from demand to planned readjustment.

B. There was an overall plentiful harvest in agriculture, and grain production emerged from stagnation. In 1990, the state raised the purchase prices of a portion of agricultural products. This aroused the peasants' enthusiasm for production, the input into agriculture was increased, the various measures on water conservancy and developing agriculture with science and technology were taken and, with the favorable climatic conditions in many localities, good tidings in agricultural production came forth from various directions. According to production estimates from various localities, the gross output volume of grain for the whole country exceeded 420 billion kilograms, an increase of over 12.5 billion kilograms over 1989 which produced the highest record in history; cotton production was 4.15 million tons, an increase of 350,000 tons over the preceding year; the output volume of edible oils was 15 million tons, an increase of two million tons; sugar production was 64 million tons, an increase of 5.2 million tons. The actual statistics should be even higher than these estimates. As for the production of pork, beef, mutton, eggs, aquatic products, vegetables and fruits there were varying degrees of increases. It is estimated that for the year as a whole the gross output value of agriculture increased by over five percent.

C. Industrial production surmounted the low bottom and showed a steadily rising tendency. As a result of the

expanding social demand and support from bank loans, industrial production in 1990 turned from the low-level hesitation in the early part of the year to revival month after month. Compared with the same period in the preceding year, in the first half year the gross industrial output value increased by 2.1 percent. In July, the growth was 2.9 percent; in August, 4.6 percent; in September, 7.5 percent; and in October, 12.7 percent. It is estimated that for the whole year the industrial gross output value can fulfill the planned target of a 6 percent increase.

D. The domestic market turned from weakness to recovery and revival. In 1990, social demand gradually increased. From January to October, the fixed assets investments of units under the system of ownership by the whole people were 141.9 billion yuan, an increase of 8.4 percent over the same period of the preceding year of which in October the increase was 12.2 percent; the gross amount of salaries and wages paid to staff members and workers was 221.4 billion yuan, an increase of 11.1 percent of which the increase in October was 15.9 percent. As a result of the expansion in social demand, the domestic markets, which for a time had shown signs of weakness, began to recover. In June, the gross amount of retail sales of social commodities rose by 1.4 percent over the same period last year, and the extent of the increase continued to expand in the succeeding month—in October, the increase was 7.4 percent. After the autumn harvest, the rural market also began to turn for the better. In October, the retail sales volumes of consumer goods of counties and localities below the county level increased by 4.2 percent over the same period of the preceding year, the retail sales volume of means of production for agricultural use increase by 4.6 percent, thus rectifying the state of a negative growth in the preceding few months. It is estimated that for the whole year the gross volume of retail sales of social commodities would amount to 830 billion yuan, an increase of over two percent over the preceding year.

E. Noticeable improvement in international payments and changing of adverse balance in foreign trade to favorable balance. In 1990, the various localities, making use of the readjustments of the foreign exchange rate and the beneficial opportunity offered by a relatively widened availability of sources of supply of export materials, vigorously developed the export trade and obtained pleasing results. According to statistics of the maritime customs, from January to October total exports amounted to \$47.25 billion, an increase of 15.7 percent over the same period of the preceding year, while the total volume of imports was \$41.05 billion, a drop of 13.5 percent. After deducting the volume of goods not subjected to the receipt or payment of foreign exchange such as those from noncompensatory aid, imported materials for processing and imported equipment from foreign merchants' investments, exports exceeded imports by \$9.3 billion. This reversed the situation of an unfavorable balance of trade for several years. At the same time, with our country's daily growing political and

social stability, international tourism has gradually revived, the intake of foreign exchange has increased, and the country's foreign exchange reserves have substantially increased.

F. In certain regions, structural readjustment has begun to proceed. First, the noncoordinated condition between agriculture and industry was somewhat changed. Comparing the growth rate of agriculture with that of industry, in 1988 it was 1:5.3; but in 1989, it was 1:2.7; and it is estimated that in 1990, the ratio would be shortened to 1:1.2. Second, the stringent condition in the supply of coal, electric power, and crude oil was somewhat eased. Comparing the growth rate of energy with that of industry, the ratio in 1988 was 1:4.2, but in 1989 it was reduced to 1:1.4; and it is estimated that in 1990 the relatively more favorable ratio of the preceding year was maintained. Third, the investment structure was readjusted. The growth rates in the investment in the basic industries and basic facilities exceeded that of all the investments combined. Fourth, improvement in the structure of the export commodities. Imports of certain electrical machinery products and such consumer goods as tobacco, alcohol, beverages, and cosmetics which were restricted by the state were reduced by one-third, while exports of raw materials in stringent demand in the country such as cotton, cotton yarn, and metallic ores were reduced by over 10 percent compared with the preceding year. Fifth, progress was made by township and town enterprises in the course of readjustment. In recent years, under the double lashing of tightness in credits and loans and market weakness, township and town enterprises, displaying their strong points of "being small in size and thus readily adjustable" and also being relatively easy in the placement of surplus labor force, actively carried out readjustment of an adequate nature, reduced their personnel and increased production, and speeded up their externally oriented economic development. In such places as Jiangsu and Zhejiang, wherein township and town industries have been concentrated, these industries, following a short period of stalemate, have been reactivated. In addition, pleasing progress has been made in the readjustment of the existing volume of industrial structure such as merging of enterprises, development of enterprise groups, and so forth.

G. The economic order has changed from confusion to initial improvement. Up to the present, the various regions and departments, through the process of improvement and rectification, have abolished or amalgamated 103,000 companies of various kinds which represented 34.5 percent of the total number of companies in the whole country, of which over half of the number of companies in the circulation sector were either abolished or amalgamated. A number of cases of violation of law and discipline were sternly dealt with and a number of criminal elements were duly punished. A new circulation order is in the process of formation.

The abovementioned conditions show that during the past year the main current in the development of the

national economy was healthy and the economic improvement and rectification yielded good results.

## II. Current Difficulties and Problems

Although in 1990 our country's national economy did show new signs of revival, the economic operations of requiring high input but yielding low output made it difficult for the entire economy to form a benign cycle within a short period of time, while the current situation is still in a serious state. The tasks of economic improvement and rectification and of deepening the reform are still considerably heavy.

A. National finance still cannot extricate itself from the current difficulties. For a prolonged period of time, our country's finance has borne the two big burdens of subsidizing commodity prices and subsidizing the enterprises' losses and deficits. The two kinds of subsidies have amounted to nearly 100 billion yuan each year. In 1990, a number of factors causing reduction in revenues but increases in expenditures appeared and aggravated the financial difficulties. First, the enterprises showed a downfall in economic effects, a reduction in profits and taxes delivered to the state and a large-scale increase in losses and deficits. Second, outlay in repayment of loan services sharply increased. In 1990, repayment of principal and payment of interest on external and domestic loans amounted to nearly 20 billion yuan, an increase of 270 percent over 1989. From now on the outlay on repayment of loan services will continue to increase, and there will be great difficulty in achieving a balanced budget.

B. The pattern of money supply exceeding the principle of economic issuance has still not changed. To ensure economic stability, in the macroeconomic adjustment and regulation of currency, not only must the issuance of money be kept in control but also must the scale of credits and loans be controlled. From January to October 1990, although the volume of issuance of money was not at all large, the balance of the various kinds of loans granted showed a net increase of 214.6 billion yuan, an increase of 106.2 billion yuan over the corresponding period of the preceding year, and many loans were converted into deposits and cash. As a result, the volume of money supply in a broad sense (M2, that is, cash plus various kinds of deposits) increased by 29.2 percent over the corresponding period of the preceding year, greatly exceeding the normal needs of economic development. Seen from the law governing monetary operations, the single increase of M2 cannot be sustained for long. After a fixed period of stagnation, movements and the input of cash (M0) are bound to follow. Supporting economic recovery purely through the utilization of credits and loans can possibly cause the potential danger of currency inflation. At the moment, control of the issuance of money principally relies on the returned flow to the treasury of credits. At the end of October, the balances of the savings deposits of urban and rural residents in the whole country amounted to 680.2 billion yuan, an increase of 165.5 billion yuan over the early

part of the year. Adding to this the cash in the hands of the residents, the potential buying power will surpass 800 billion yuan. This enormous amount of potential buying power forms an underlying pressure force on the markets.

C. Continued fall in the enterprises' economic effects. From January to October 1990, the realized profits and taxes of state-run industrial enterprises in the budget amounted to 103.5 billion yuan, a fall of 20 percent compared with the corresponding period of the year before last, the amount of losses and deficits of loss-incurring enterprises increased by 100 percent; at the end of October, finished products held funds amounting to 115.6 billion yuan which, plus the sharp increase in the "debt chairs" tied up an enormous amount of circulating funds. The economic effects in commerce also showed an obvious fall. The realized profits of state-run and jointly financed commerce dropped by around two-thirds compared with the corresponding period of the year before last.

D. The steps taken in deepening the reform were indeed difficult ones. In the course of the transition between the old and new structures, deepening the reform faced many "doubly difficult" choices. For example, amelioration of the allocation of resources is an important road to structural readjustment and increasing the effects; but in ameliorating the structure, first, it requires readjusting and increasing the volume and under the current conditions of financial difficulties and poor enterprise effects, it is difficult to increase the investments; and, second, it also requires readjusting the existing volume and this necessarily accompanies certain enterprises closing their doors, stopping production and being amalgamated. With the current unhealthy state of the social protective system, any rise in the labor unemployment rate will adversely affect social stability and unity. Again for example, price reform is the key to other kinds of reform. The serious twisting of the price structure and the existence of the double-track prices cause businesses accounting to lose its objective standard and are disadvantageous to competition in equality. On the other hand, smoothing out the prices may cause a rise in commodity prices which the residents cannot bear. Furthermore, in financial distribution, if we do not change the situation of the central government's ratio in financial distribution being too low, then central finance will be in a difficult state and will find it hard to continue. But if the ratio is increased, then harm may be done to the positivism and enthusiasm of the localities and the enterprises. Facing these "doubly difficult" choices, in economic improvement and rectification we have been inclined to stress stability of the moment which necessarily affected the steps of reform.

### III. Prospects and Countermeasures for Development From Now On

In making a comprehensive survey of the current operational process of the national economy, it may be found

that different directions taken in macroeconomic policy-making possibly can produce different development prospects.

First, paying attention to the organic integration of near-term effects and long-term effects. In policy-making, it is necessary to seek an adequate growth of the economy and also to take note of the gradual rationalizing of the economic structure and the operational mechanism, not only to alleviate the symptoms but also to effect a permanent cure. It is also necessary to grasp the current advantageous opportunity to push the necessary reform and adjust the relations among readjustment, reform, and development well, let reform promote readjustment and let readjustment seek development. This will meet with great difficulties and large risks. It also requires penetrating and detailed work.

Second, paying attention to seek temporary stability and allowing the economy to carry on in a state of illness. In policymaking, stress is laid on adjusting and controlling the gross volume and loosening the solution of the profound contradictions, alleviating the symptoms without effecting a permanent cure and following the old road of high input but low output. By so doing, the risks involved are small, and for a time the economy may continue to rise, but the problems of the poor and low effects of the structure generated by the structure and the operational mechanism being irrational will become outstanding and it will be difficult to fully realize the main targets of the improvement and rectification. This may cause potential difficulties to future economic development.

Third, paying attention to the short-term rapid rise in the economy and one-sidedly going after output value. In policy making, there is comprehensive loosening of the strength in macroeconomic adjustment and control and stimulant is injected into the economy. By so doing, it will be possible to attract economic prosperity on the surface but under the current twisted structure, very soon it will attract a new round of demand inflation, thus negating all the successes made in the improvement and rectification.

Weighing the strong and weak points of the abovementioned three choices, obviously we should strive hard to realize the development prospects of the first choice mentioned above. Therefore, for a certain period from now on, it will be necessary to strive hard to perform the following jobs well:

A. Unifying thought and unifying action. In economic improvement and rectification, and deepening of the reform, regardless of whether it concerns controlling the demand, readjusting the structure or strengthening the power of macroeconomic adjustment and control, it is necessary to make the necessary readjustment of the existing interest pattern. If nothing is moved or changed, then the difficulties cannot be overcome and the factors causing economic instability cannot be eliminated.



Therefore, the various localities, departments, and enterprises should all establish the ideology of taking the whole country as one chessboard, start from the situation as a whole, jointly share the country's difficulties, accomplish the feats of partial interests abiding by whole interests current interests serving long-term interests, individual interests being subservient to collective interests, make the actions truly unified to the spirit of the fifth plenary session of the 13th CPC Central Committee and jointly perform a good job of improvement, rectification, and deepening reform. Naturally, readjustment of the interest pattern must be to a suitable degree and we must endeavor to enable all quarters, on the basis of passing the difficult times, can still manage to get along. Stability of the whole situation should by no means be affected.

B. Actively readjusting the economic structure. The key to the sustained, stable, and coordinated development of the economy lies in the structure being rational and the ratios being coordinated. During the period of improvement and rectification, the overly large social demand should be compressed and the excessive industrial growth rate should be lowered, thus providing a good opportunity for rationally readjusting the economic structure.

In the structural readjustment, we should first of all strengthen agriculture. "Without agriculture there will be no stability and without grain there will be confusion and disorder." Agriculture is the foundation of the national economy and also the foundation of political stability and social order. A good or bad situation in agriculture has a vital bearing on the whole situation. Therefore, in economic development we should first of all grasp agriculture tightly.

In readjusting the structure, utmost efforts should be devoted to increasing the production and elevating the operational force of energy and raw materials. We must follow the demands of the industrial policy, earnestly readjust the investment structure, further reduce ordinary investments, and increase the investments in the basic industries. The major points are increasing the investments in agriculture, coal, petroleum, electric power, and railroad construction.

While ameliorating the structure, we must devote great efforts to grasping well the full utilization and rational allocation of the essential elements of production and definitely strive to uplift the economic effects.

C. Improvement and rectification must be integrated with deepening the reform. While continuing to tightly grasp improvement and rectification, we must gradually enlarge the steps and proportion of the reform. In reform it is necessary on the one hand to attach importance to the policy's nature of continuity and stability and to avoid hastily negating the past reform measures undertaken and on the other hand we must take note of the negative effects of certain reform measures taken and actively probe for measures and piloting work to

improve the reform. Reform arrangements should be changed from the past practice of "crossing the river by groping the hidden rocks" to the formulation, on the basis of summarizing all the past reform experiences, of medium-term and long-term rules, fixing the major points of reform for each period as well as the various kinds of comprehensively coordinated reform measures, and pushing the smooth progress of the reform. In deepening the reform, it must be beneficial to readjusting the structure and elevation of the macroeconomic effects; it must be beneficial to rationalizing the distribution relations between the state, the collective, and the individual; it must take progress in technology as an important target of the reform, and establish an economic environment and economic mechanism which can arouse the enterprise's enthusiasm for seeking technological progress. Regarding industries of the technological and wisdom-intensive type a heavily slanting policy toward them should be implemented. We must extricate our economy from the old road of high accumulation, low effect, high input but low output. Simultaneously with continuing the enlivening of the microeconomy, emphasis must be laid on strengthening and perfecting macroeconomic control, and appropriately centralizing financial power and material power to enhance the central government's ability in adjusting and controlling the gross volumes.

In our opinion, the reform measures to which we should give priority in the recent period are: 1) Perfecting the social security system. If the reform in this connection is not first carried out, other reforms cannot proceed in a stable environment and structural readjustment cannot be extensively developed. 2) Price reform. If there is no price reform, other reforms may run aground and become out of shape. Price reform should be of use in reducing financial subsidies. We should grasp hold of the current rare opportunity of the easing of the market contradictions in supply and demand and under the preconditions of doing a good job in comprehensive balancing, particularly balancing in the sector of credits and loans, to actively, steadily and by steps push forward the measures in price reform. 3) We should improve and develop the enterprise contracted operational responsibility system, further arouse the enterprises' enthusiasm in self-development and self-control, and smooth out the various internal relations of the enterprises.

D) Administrative measures should be integrated with economic and legal measures. Since the reform and open door, our country's economic structure and operational mechanism have developed many changes. First, many kinds of economic constituencies and operation forms both with the public ownership system as the main body are coexisting at the same time; second, the scope and functions of the markets have clearly expanded; third, the plurality pattern in economic interests has been formed; and fourth, the autonomous power of the localities and enterprises has expanded, thus initially forming economic control at various levels. The above changes demand of us to establish a healthy macroeconomic



adjustment and control system. In the process of formulating plans, adjusting and controlling the economy, we should work in accordance with the objective economic law, self-consciously obey and employ the law of value, comprehensively employ economic, legal, and administrative measures to enhance the scientific character, character of promptness and effective character of macroeconomic policymaking and management and thus to push forward the sustained, stable, and coordinated development of the economy.

E. Improving the economic environment and improving the social environment should be integrated. Several years ago, when ideas of capitalist liberalism overran the whole country, many ugly phenomena appeared in society. The ill wind of "all for the sake of money" dominated the whole nation. How to establish a new value concept and morality concept and rekindle the people's spirit are also problems currently needing solution. We should grasp improving the economic environment with one hand and improving the social environment with the other hand, while leadership at various levels should perform well the job of establishing an honest administration, improve the leadership air and atmosphere, unite the extensive people's masses, and fight against society's evil phenomena. It is necessary to strengthen ideological education; expound the superior traditions of self-regeneration; engage in hard and difficult struggle; and upbuild the nation; and do all work in diligence and frugality; and stir up the masses' positivism, enthusiasm, creativeness, self-respect, and self-confidence.

### Differing Views on Tax, Profits Separation

91CE0504A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 1, 5 Jan 91 pp 57-63

[Article by Yang Peixin (2799 1014 2450): "The Issue of Separating Taxes From Profits Requires Thorough Examination"]

#### [Text] 1. Burdens Enterprises Must Bear

Two completely different estimates exist today about the future of enterprises. One estimate holds that enterprises' retained profits will increase year by year, and that the financial independence and autonomous financial resources of enterprises will steadily expand. The basis for this view is that in 1978 the retained profits rate for state-owned enterprises of only 3.7 percent rose to 55.3 percent in 1989. Retained profits increased from 2.8 billion yuan in 1978 to 69.76 billion yuan in 1989. However, the estimate arrived at in some provincial and municipal economic committee discussion meetings is that the external environment for enterprises is

becoming harder rather than easier. Some enterprises are even experiencing the greatest difficulties they have faced in the past 10 years.

Just what situation do enterprises find themselves in? What are their tax burdens?

From February through June 1990, the Chinese Industrial Economy Association and the State Council's Production Committee surveyed 229 industrial enterprises in 14 provinces and cities. Included in this survey were large, medium and small enterprises, and it covered state-owned, collective, and rural enterprises. Their analysis showed that the state levies taxes on state-owned enterprises at four successive stages:

First is taxes on costs. In 1989, 193 state-owned enterprises carried as costs 287 million yuan in land use taxes, vehicle and ship use taxes, real estate taxes, printing taxes, resources taxes, and a special tax on the burning of petroleum for fuel. This was 243 million yuan more than the 44 million yuan in taxes paid in 1986, a 5.5 fold increase. Tax and interest payments added 940 million yuan to enterprises' costs.

Second is the levying of a transaction tax on sales income that amounts to approximately half or more of the net income that enterprises realize. The 5.351 billion yuan in taxes on sales that the 193 state-owned enterprises paid in 1989 amounted to 56.1 percent of the profits and taxes that they took in, up 29 percent or 1.2 billion more than in 1986.

Third is the levying on profits of a contracted profits tax (financial units do not recognize contracting. They carry revenue from this tax on their books as income taxes and regulation taxes). In 1989, the 193 state-owned enterprises paid 1.55 billion in such taxes, or 16.3 percent of the profits and taxes they took in. Repayment of 970 million in special-purpose loans amounted to 10.2 percent of profits and taxes realized. Taking profits realized as 100, these two items took away 60 percent of profits, 37.7 percent in income taxes and 22.3 percent for the repayment of loans.

Fourth is taxes for the "two funds" collected from after-tax profits, namely the energy and transportation key construction fund, and the budget regulation fund. In 1989, the 193 enterprises paid 540 million yuan in taxes for the two funds. This was 284 million yuan more than the 256 million yuan they paid in 1986 for a 111 percent increase. In addition, various subsidies, subscriptions to various bonds, and the payment of construction taxes and bonus taxes have to be paid out of retained profits. Such payments totaled 336 million yuan in 1989, 92 million yuan or 37.8 percent more than in 1986. Payments for the "two funds" and for these other purposes totaled 9.2 percent of profits and taxes realized.

Table Showing Distribution of Net Income of 193 State-Owned Enterprises

Items: (Unit: 100 Million Yuan)	1986		1989		
	Amount	Percent	Amount	Increase Over 1986	Percent
1. Total Profits and Taxes Realized	8.5	100	95.36	12.2%	100
2. Transaction Taxes Paid	41.45	48.8	53.51	29.1%	56.1
Profits Realized	43.35		41.85	-3.9%	
4. Income Taxes and Profits Paid	23.79	28	15.50	-34.8%	16.3
5. Repayment of Special Purpose Loans	4.10	4.8	.972	137.1%	10.2
6. Payments For "Two Funds"	2.56	3	5.40	110.9%	5.7
7. Payments From Profits For Subsidies, Bonds, and Construction Taxes	2.44	2.8	3.36	87.8%	3.5
8. Enterprises' Actual Retained Profits	10.66	12.6	.787	-26.2%	8.2

The above table shows that various taxes, expenses, interest, and bonds collected through taxes on costs and taxes on transactions first reduce enterprises' profits; then, levies for funds and taxes on enterprises' profits and nominal retained profits result in enterprises' actual retained profits amounting to practically nothing. In 1989, 65 of the enterprises, or 33.7 percent, had per capita retained profits of 1,000 yuan or more; 30, or 15.5 percent, had per capita retained profits of between 600 and 1,000 yuan; and 98 enterprises, or 50.8 percent, had per capita profits of less than 600 yuan and were extremely hard pressed. This included 65 enterprises (33.7 percent) with profits of less than 300 yuan per capita. The per capita retained profits of these enterprises did not even suffice to pay staff member and worker expenses for medicine (and did not include deductions for all sorts of arbitrary assessments, pooling of funds, collections, and fines).

In 1990, the General Department of the State Council Office conducted a two month survey of 30 enterprises in two provinces and five municipalities. It compiled statistics on various taxes and fees, and various funds and bonds that enterprises must buy. This survey showed a year-by-year increase in recent years in the newly levied kinds of taxes and fees. In 1978, there were only seven taxes and fees; in 1986, there were 27; and in 1989, the number increased to between 40 and 50. China Industrial Economy Association statistics show that in 1978 the state collected only two taxes and fees from industry (industrial and business taxes, and income taxes). Following the second step in the change from delivery of profits to payment of taxes, the number increased to seven (product tax, value added tax, business tax, resources tax, salt tax, income tax, and regulation tax). In 1989, the number of taxes increased to 20 and the number of fees increased to more than 60 for a total of somewhat more than 80. Some provincial and municipal economic committee discussion meetings pointed out that the various taxes and fees now total more than all the profits and taxes that enterprises take in. Transaction taxes should be restored to their former

normal level. Analysis shows the transaction tax as a percentage of profits and taxes realized amounted to 39 percent in 1983, 54 percent in 1988, 63 percent in 1989, and 78 percent during the first half year of 1990. In 1990, industrial production nosedived, 34 percent of all enterprises showing losses, and only 50 percent of enterprises showing tiny profits. Nevertheless, government revenues continued to rise. For the root to shrivel while the branches flourish is an extremely abnormal condition, but this is the result of government's greater tax levies on costs and sales income.

Have enterprises' retained profits increased?

The analysis of the General Department of the State Council Office is: During the past several years, enterprises' nominal profit retention has risen, but enterprises' actual profits have declined as a result of state levies for energy, transportation, key construction funds, the budget regulation fund, and an increase in payments of other expenses from retained profits.

The China Industrial Economics Association pointed out that since institution of the contract management responsibility system, enterprises have had a chance to catch their breath, and this has advanced development of industry and the national economy. During the past two years, however, many policy measures have come out that have taken back advantages that enterprises gained. Since the last half of 1989, the problem of too heavy taxes and fees has become increasingly intense.

The reason their analysis differs from that of government financial departments is: The association figured tax collections as part of profits and taxes realized, and the taxes and fees paid out of retained profits were included as government revenues. However, government financial departments treated the "two funds" that government has collected as enterprises' retained profits.

Thus, they came up with the conclusion that the country's enterprises' "tax burdens are not heavy," and that they are "lighter than in foreign countries."

The Anhui Economic Committee calculates that the Ministry of Finance "takes four cuts" out of enterprises. It takes three percent from costs, 70.3 percent from sales income, 14.47 percent from profits, and 12.23 percent from retained profits. Government financial department figure only the 14.47 percent taken from profits and do not discuss the rest. No wonder that they come to the conclusion that enterprises' retain profits of 55.3 percent.

Enterprises' actual retained profits have fallen from 1,122 yuan to 742 yuan per capita. Sadly, despite state contracting with enterprises in an effort to increase enterprise vitality, the government takes back more money through taxation. Not only does this produce a slide in industrial production and difficulties in the national economy, but it has made it difficult for enterprises to maintain simple reproduction.

The General Department of the State Council came to the following conclusion: It recommended that agencies concerned use a readjustment of taxes as a means of reducing tax and fee burdens. The China Industrial Economy Association concluded that just as the peasants' burdens have been reduced, so should specific proposals be made on the problem of lightening the burdens of industrial enterprises. It recommended moderation, completely straightening out existing taxes and fees in a single effort. Certainly this idea has the interests of the country, the people, and the overall situation in mind, and it is also a fair, reasonable, and workable idea. It should become the starting point in our consideration of the separation of taxes and profits.

## **2. The Substance of Separation of Taxes and Profits As Seen From Pilot Projects on the Separation of Taxes and Profits.**

Since the announced purpose of "separation of taxes and profits, after-tax contracting, and after-tax repayment of loans" is further perfection of the contract system, and draws on advantages of both the contract system and payment of taxes in lieu of delivery of profits, it should be the direction for future enterprise reform. Let us make a concrete analysis of the facts obtained from pilot projects.

(A) Is perfection of the contract system the goal of the separation of taxes and profits?

Comrades who advocate a separation of taxes and profits have the following to say: "The separation of taxes and profits is a perfection and development of the existing enterprise contract responsibility system rather than a measure than runs contrary to it." Pilot projects revealed that in the separation of taxes and profits, enterprises have to pay a 35 percent income tax rate, which is a very high tax rate. Under these circumstances, the number of enterprises able to do after-tax contracting is very small.

Statistics on pilot project enterprises show those lacking the after-tax profits needed to do contracting number 34.3 percent in Chongqing, 60 percent in Yiyang, and 70 percent in Mudanjiang City. In some areas the percentage is close to 80. Consequently, once taxes and profits are separated, contracting stops as a practical matter.

The separation of taxes and profits and the contracting system are two entirely different systems. One is the "separation of taxes and profits" for the purpose of increasing government revenues; the other is the contracting system that has as its purpose the building of enterprises that can operate independently, that produce their own accumulations, and that have their own development mechanism. These two are mutually exclusive. The tax and profits separation proposal actually aims at toppling and negating the contract system rather than perfecting it.

(B) The separation of taxes and profits is for the purpose of reviving the income tax system. It is the third step in a change from the delivery of profits to the payment of taxes.

The Chongqing pilot project on the separation of profits and taxes refused to yield an inch on the levying of an income tax; however, there could be zero after-tax contracting, or even refunds to the treasury. Some flexibility in the after-tax repayment of loans was also permitted. If one could not repay half after taxes, a 40, 30, 20, or even 10 percent repayment was permitted. Clearly the focus in the separation of taxes and profits was on the revival of income taxes. After-tax contracting, however, was just a sham. After-tax loan repayment also took a back seat. Thus, we can say that taxes are an ulterior motive, specifically a revival of the income tax.

Comrades who advocate a separation of profits and taxes give a straightforward response: Some people condemn financial units, claiming that the real intention in separating taxes and profits is to revive the income tax. We do not deny that this is so, nor is there any need to be coy about it. Implementation of the second step in the change from delivery of profits to payment of taxes in 1983 and 1984 brought about an increase in various transaction taxes. Now, financial departments are trying to use the levying of an income tax as the basis for using the contracting of profits as a replacement for the former regulation tax. Thus, this is actually the third step in the change from delivery of profits to the payment of taxes. It produces a more stringent system of multiple tax rates and multiple burdens, including the income tax, thereby taking away virtually all of enterprises' profits in the renewed implementation of the system of unified state control over receipts and expenditures.

(C) What is the goal of the separation of taxes and profits?

A comrade in the Yancheng Planning and Economic Committee in Jiangsu Province said: The plan for separating taxes and profits lowers the income tax rate from

55 percent to 35 percent, and abolishes the regulation tax. On the surface, it appeared to reduce enterprises' tax burdens; actually taxes increased. First comes an increase in the base figure used in collecting the income tax. In the system of before-tax repayment of loans, the income tax is figured after repayment of loans. With the separation of taxes and profits, however, the income tax is figured first, and then loans are repaid out of profits remaining. State-owned industrial enterprises within budget in Yancheng pay profits of 23.378 million yuan. Were the separation of taxes and profits to be instituted, they would have to pay 44.862 million yuan in a 75.09 percent increase in this portion of taxation. In 1989, Yancheng industrial enterprises paid 15.112 yuan into the energy and transportation fund, and into the budget regulation fund. With implementation of the separation of taxes and profits, they would have to pay 20,828,800 yuan, up 37.83 percent. Payments of taxes and profits as a percentage of net income would increase 11.19 percent from 63.88 to 75.05 percent.

Comrades in the Anhui Provincial Economic Committee estimate that the separation of taxes and profits would mean a 20.46 million yuan, or 40 percent, increase in 147 enterprises' payments to the treasury. Under this situation, one-fifth of enterprises would have after-tax retained profits that would be less than 1988 even if they did not repay loans, and they would have no profits for contracting. For the province as a whole, 77 percent of 1,271 industrial enterprises within budget would have no profits to use for contracting.

Profits paid by industrial enterprises under ownership of the whole people that are within budget nationwide now account for 1.5 percent of total government revenue. Even if all retained profits were turned over to the government, they would still amount to only five percent of total revenue. Given this situation, the separation of taxes from profits would needlessly stifle enterprises without helping eliminate the government deficit. In a strategic sense, the gain is not worth the loss.

Benefits gained from the separation of taxes from profits in Chongqing during 1988 were rather good, so some people regard this as proof that the separation of taxes and profits is truly beneficial. However, in that year, the output value and sales receipts of industrial enterprises in Chongqing increased less, however, in enterprises practicing the separation of taxes and profits than in contracting enterprises. Furthermore, the increase in profits in enterprises practicing the separation of taxes and profits in 1988 derived from a rise in television set prices in 33 percent of cases. Some comrades only take into consideration the sharing of benefits when particular things improve as the general situation improves. They do not take into account what is to be done when particular things get worse when the general situation gets worse. Actually, the separation of taxes and profits, and the figuring of income tax payments at different rates is a system that encourages enterprises to "eat out of a large common pot." When profits are large, they pay much; when profits are little they pay little; when there

are no profits, they pay nothing; and when they incur losses, they ask the state to make them up. Consequently, enterprises that are well operated usually select contracting while losing enterprises prefer the separation of taxes and profits.

(D) The separation of taxes and profits, and the contracting system are two different mechanisms.

The separation of taxes and profits is an effort to change the way the "cake" is divided, giving the government the largest piece. It is a change in distribution proportions. The contract system encourages the making of a large "cake," most of it going to the state, a smaller portion going to enterprises, staff members, and workers. When separation of taxes and profits is first instituted, it can truly increase revenues in some countries, but this inevitably dampens the enthusiasm of staff members and workers. No one wants to make a "big cake" any longer. The increased revenues fade fast. To use the jargon that financial departments use, separation of taxes and profits is "unleavened dough." The matter to be concerned about is how to cut up this lump of unleavened dough. By contrast, the contracting system is "leavened dough." the matter to be concerned about is how to make it rise to make a bigger "cake" from which everyone gets a larger piece.

(E) Prospects for separation of taxes and profits.

The goal of separation of taxes and profits is to get more money for the government. However, there is only so much money, and the more the government takes, the less retained profits for enterprises. At the Mudanjiang pilot project, enterprises' retained profits fell 17.2 percent; and at the Nanyang pilot project, enterprises' retained profits fell 8.77 percent. In only 23 of 55 Chongqing enterprises that separated profits and taxes did production development funds increase in 1988 over 1987. In 1989, only four showed a slight increase. In all the others a decline occurred.

The three years of pilot projects in the separation of taxes from profits were a re-enactment of the 1983 process whereby the change from delivery of profits to the payment of taxes led to a slide in enterprises' economic returns. With the 1983 change from the delivery of profits to payment of taxes to the state, and the second step of this program in 1984, the state took in more revenue, but enterprises' retained profits declined and funds invested in the expansion of reproduction declined. This finally resulted in a 22 month slide in both enterprises' actual profits and revenues paid to the treasury, forcing the State Council to declare a halt to the change from delivery of profits to payment of taxes in 1987, and a change to promotion of the contract system. The present pilot projects for the separation of taxes and profits, which began in 1988 re-enacted in Chongqing and Mudanjiang the same process that occurred in the change from delivery of profits to the payment of taxes. They killed the goose that lay the golden eggs, and once the goose was gone, there were no more golden eggs the

following year. For enterprises to retain a little more profit is certainly not a bad thing at all. In conducting the financial affairs of the country, one cannot simply think in terms of more revenue for the current year, but in terms of getting more revenue in years to come. The principle of "having to give in order to get" is the dialectic method in the conduct of financial affairs. One cannot resort to short-term actions simply because one is currently facing financial difficulties. The State Council permitted pilot projects on the separation of taxes and profits in only limited areas rather than promoting them without careful consideration. This was wise. Otherwise, in the situation of a market slump, it would have dealt enterprises a mortal blow. In addition, it is suggested that henceforth there should be no further espousal of "separation of taxes and profits, after-tax contracting, and after-tax loan repayment" as being the orientation of development of enterprise reform and the contract system. This is because such formulations not only lack a theoretical basis, are not backed by successful pilot projects, and may obscure the goals of reform.

### 3. Theoretical Basis for Separation of Taxes and Profits

Some people regard Marx's analysis of the function of social administrators, and the function of owners in a socialist country as being the theoretical basis for separation of taxes and profits. This does not hold water. This is because what Marx was talking about was the two aspects of the role of socialist countries; he did not mention the idea of separation of taxes and profits. The two ideas of a change from the delivery of profits to the payment of taxes, and separation of taxes and profits are an imprecise and an unscientific capsulization of the state of affairs in capitalist countries. Private enterprises under the capitalist system can only pay income taxes, of course. They do not deliver profits to the state. Profits belong to the owner of the private enterprise. No situation exists of a separation of taxes and profits in which the state collects both taxes and profits. Taxation of private enterprises in capitalist countries may take the form of income taxes and direct taxes, or it may take the form of transaction taxes and indirect taxes. In old China, there were only customs duties, the salt gabelle, and consolidated excise taxes on certain staples; no income taxes were collected. Thus, state levying of both an income tax and collection of profits from enterprises does not exist in capitalist countries. China's current tax system collects taxes on enterprises total profits and taxes, i.e., it levies an approximately 60 percent transaction tax, and also collects profits on contracting. Is this not the separation of taxes and profits? To say that this is still not the separation of taxes and profits, and insisting on changing to the levying of a transactions tax first and then levying an income tax followed by a demand for contracted profits is nothing more than seeking a pretext for levying an additional income tax on enterprises.

The separation of taxes and profits both takes away enterprises' retained profits, resulting in enterprises having no ability to accumulate funds themselves, and

also makes enterprises repay loans after taxes. If enterprises are unable to repay loans after taxes, they have no choice but to make no further loans. This means that enterprises lose their ability to accumulate funds, their ability to transform themselves, and their ability to develop themselves from either internal or external sources. It blocks channels whereby enterprises can expand reproduction and maintain simple reproduction.

In defense of the validity of separation of taxes and profits, some people propound the theory of the state as the principal investor as a means of refuting the theory of enterprises as principal investors. They regard enterprises under ownership of the whole people as principal investment entities, and they make an enterprise's ability to accumulate funds itself, transform itself, and develop itself the goal of enterprise reform and a mark of the sufficiency of enterprise reform.

Actually, whether or not one recognizes enterprises right to expand reproduction, and the function of enterprises in accumulating funds themselves and developing themselves is where the differences about adhering or not adhering to reform lies.

Prior to reform, the state was the principal investor in the expansion of reproduction in China. At that time, approximately 90 percent of enterprises' profits were within budget; even depreciation was part of state budget. This meant that not only in the expansion of reproduction, but also in simple reproduction, the state was the principal investor. Under this system, the state constantly levied new assessments, but some new projects were built, some grew old, and some were scrapped. The return on investment in new projects was approximately 30 percent lower than from the remodeling, expansion, or technical transformation of enterprises. As the Third Plenum of the 12th Party Central Committee pointed out, the various shortcoming of this system showed up in a concentrated way in the lack of vitality of enterprises. After more than 40 years in which the state was the main investor, the USSR finally had no choice but to undertake economic system reform. Practice has shown expansion of reproduction in which the state is the main investor to be unsuccessful.

By the end of 1987, the contract system clearly became the center and the emphasis of enterprise reform. Prior to contracting, enterprises had no accumulations. The contract system proceeded from realities. It was acknowledged that, as before, the government taxed at fixed rates on three levels (costs, sales, and retained profits). Only in the payment of profits was a halt called to the use of the payment of income taxes at fixed rates. Contracting was done according to the highest year for income tax payments, and year-by-year increases were also acknowledged, "firm quotas contracted, arrears to be recompensed." This ensured no reduction in government revenues and no lesser amount collected, and also allowed enterprises, staff members and workers, to go all out to create excess (beyond the contracted quota) profits. Thus "the more created the more retained"

snowballed into enterprises own accumulation and own development mechanism. It enabled enterprises gradually to become the main investor in the expansion of reproduction. It also used the development of production as a basis for gradually improving the standard of living of staff members and workers. The state made no concessions on either taxes or profits. Instead it used contract quotas and year-by-year increases, neither forcing nor giving way to ensure fiscal revenues. Profits over and above contracted quotas did not come out of the state. The state simply provided a policy whereby the more profit an enterprise made, the more it retained. By no means did enterprises take financial revenues from the state.

When the change from delivery of profits to payment of taxes was instituted, the income tax rate was set at 55 percent. In practice, however, only 28 percent of enterprises' profits were collected. In the present separation of taxes and profits, this has increased to 35 percent, taxation at fixed rates instituted at four levels (costs, sales, profits, and retained profits). An additional large chunk is collected on top of the original 90 percent levy. This puts at end to the idea of enterprises' "greater retention of greater profits." Since they may not retain excess amounts, enterprises have no way out. Nothing is retained for enterprise accumulations; enterprise technical transformation has come to a halt; labor productivity rates cannot be raised; and enterprises have no way to provide greater accumulations. Inevitably, the result is that enterprises themselves cut off avenues to prosperity. It must be realized that the state is currently in financial difficulties. However, the reason is not that enterprises are paying too little, but rather that the state apparatus is huge, with too many personnel and a ballooning of agencies. Budgeted funds are now used mostly for sustenance. State investment in economic construction has remained for many years at the 35 billion yuan level, while the internal and external debt and bank overdrafts have reached 40 billion yuan. Budgeted funds are used mostly to meet day-to-day expenses; expansion of reproduction depends on loans and overdrafts for the running of a deficit operation. The energy and transportation fund, and the budget regulation fund that enterprises pay for are used but extremely little for construction. Mostly these funds go for day-to-day expenses. Therefore, even were a little more income tax to be collected from enterprises, it would not likely play a role in expanding reproduction. It would still be used mostly for public consumption payments. Actually, it would play a role in turning enterprise accumulations into public consumption. Since the fiscal deficit is created by the huge size of state agencies (approximately 40 million people eat state-provided grain), the only way to get rid of the red ink is to put into practice the streamlined administration that Chairman Mao proposed in 1942. Further surgery on enterprises that already bear a heavy burden will not extract a little more profit from them in the end, and will not help the overall situation.

#### 4. Consequences Ensuing From the After-Tax Payment of Loans.

Comrades who advocate the separation of taxes and profits, after-tax contracting, and after-tax debt repayment declare that after the separation of taxes and profits, enterprises will be able to develop themselves, borrow money themselves, and make repayment out of after-tax profits. Such enterprises will then become "main investors." They also say that the present system whereby before-income tax profits make repayments means that enterprises themselves borrow money, but the state repays the money for enterprises out of income taxes. Actually this is distribution in advance, the initiative for anticipated fiscal expenditures being totally in the hands of enterprises with the state being in a passive position. Consequently, enterprises have no scruples about borrowing.

Comrades who advocate a separation of taxes and profits say that once a separation of taxes and profits is in effect, when the economy is in difficulty and enterprises' economic returns decline, the state will be able to share risks jointly with enterprises, helping enterprises get through the difficulties. They can enjoy benefits together and share risks enabling the country to regulate the economy and enterprises to develop production. However, after the 1989 market slump and the slide in production in Chongqing, profits declined 8.58 percent in 128 enterprises practicing the separation of taxes and profits, but government revenues from income taxes still increased 9.8 percent. Except for collecting more income taxes, the government showed no other real signs of helping enterprises get through the difficulties.

Some people say that by repaying loans after taxes, enterprises can become principal investors. A Chongqing Economic Committee analysis shows that the state taxes away between 85 and 90 percent in enterprises net earnings, leaving them only between 10 and 15 percent. Enterprises use this remaining percentage to pay staff member and workers non-staple food subsidies, to pay for wage changes linked to wage rises, as well as to pay ever rising medical treatment fees, and to help staff members and workers who do not have enough to live on, etc. Little remains for enterprises' technical transformation. Furthermore, increases in profits under the revision would also be taxed at a fixed rate, between 85 and 90 percent having to be paid to the government. The original method permitted repayment of loans after product taxes and before income taxes; however, the change to payment of loans before taxes to repayment of loans after taxes called for in the separation of taxes and profits has blocked this avenue. As a general rule in other countries, the funds for the development of production must be at more than 20 percent of net income before self-development becomes possible.

With the implementation of separation of taxes and profits, enterprises would have neither profits to contract nor the resources to repay loans. The direct consequence would be that enterprises would no longer want

to undertake technical transformation or increase investment. This would lead to a slowing and stagnation of technical progress, which would bring about a shrinking and a regression of the national economy. Not only would it be impossible to ensure government revenues, but a new slide in revenues might occur. Realization of a change in the position of enterprises to that of main investor would become empty talk.

Comrades who advocate separating of taxes and profits show theoretical contradictions of all kinds. When they explain that enterprises simply should not have the function of accumulating their own funds, they refute the contention that enterprises under ownership of the whole people should be main investors. When they want enterprises to repay loans after taxes and also declare this to be a change in position to main investor, they are calling for enterprises to become main investors. Actually, they want enterprises to become the main entity repaying loans. Some people even go so far as to arbitrarily assert that "disadvantages to repayment of loans before taxes outweigh advantages, and that there is no international precedent for this." In fact, however, repayment of loans before taxes happens to be the usual practice in all countries of the world.

The advantages and disadvantages, and the gains and losses from payment of loans before taxes must be considered in terms of the country's specific circumstances. During the period immediately following liberation, we copied the methods of the USSR to amass funds for the building of heavy industry and national defense industries. We set the depreciation rate for existing enterprises very low, and we made depreciation funds a part of the national budget. We had no choice but to do this at that time. The country's depreciation rates remained very low right up until 1978, and the depreciation period ran for 25 or 30 years, or more. In 1988, the depreciation rate for industrial enterprises was raised to 5.3 percent, and replacements of plant could be made only after approximately 20 years. This was about double the time in the United States, Japan, and France. Enterprises in western countries carry depreciation as part of costs. First they use depreciation funds to repay loans, after which they pay income taxes, repaying loans before taxes. As a result of price rises in China, the replacement value of fixed assets is generally 1.6 times their original value. Nevertheless, local authorities in charge take a portion of this small depreciation fund. The state carries depreciation funds outside budget, collecting 15 percent of them for the energy and transportation fund, and 10 percent for the extrabudgetary regulation fund. When this money is invested in replacement and transformation, a construction tax is collected, bonds must be purchased, and various assessments are added. Consequently, the actual depreciation fund amounts to only one-sixth of the figure that should be withheld.

Following World War II, world science and technology advanced rapidly and products changed with each passing day. Thus, western countries instituted rapid

depreciation. China's depreciation period is overly long; insufficient funds are withheld for depreciation; and enterprise profits are false. They actually include costs that eat up capital. It has been estimated that they eat up approximately 60 billion yuan of capital each year. This makes national income false. It is a little like a dragonfly eating its own tail. The countries of the world ensure simple reproduction as a means of expanding reproduction. In China, by contract, the hollowing out of simple reproduction capital is used to expand reproduction. This violates objective economic laws for the expansion of reproduction, placing emphasis on new construction while slighting technical transformation. A number of new projects are built, others get old, and still others are scrapped. Investment is large, but output is slight. The emphasis is on extensive expansion of reproduction while slighting intensive expansion of reproduction.

During 10 years of reform, to increase output of new products and accelerate technical transformation, we did not have the time to effect a fundamental reform of the depreciation system. All we could do was make adaptations, i.e., adapt to a situation of increasing the portion of the national income distributed to the peasants, staff members and workers, and individual households, absorb savings deposits from banks, and issue intermediate and short-term equipment loans (subsequently called technical transformation loans) to enterprises, issuing 170 billion yuan in such loans in 10 years. At the same time, enterprises were permitted to use returns from the new equipment they purchased to repay loans, which is to say repay loans before paying taxes. This accelerated technical transformation of enterprises, new products coming out in an endless stream. Consequently, the market supply of light and textile industry products became ever more abundant. Increased profits of enterprises each year must include results of newly purchased equipment. Since this portion increased as a result of bank loans, the principal and interest should be repaid first. Once the loans have been repaid, this portion of profit should revert to the government. Actually, the portion derived from the levying of a transaction tax on new products, and the portion of increase in retained profits has already become increased government revenue. Without investing so much as a copper, the treasury realized a net increase in two pieces of revenue. After full repayment of loans, the portion of profits used to repay loans also became government revenue. This was extremely advantageous for the government. However, government financial units are accustomed to having the government disperse all funds invested, with all interest being paid to the government. Even though 80 percent of enterprises' net income reverts to the government and 10 percent goes to banks for the repayment of loans, it still wants to get the principal and interest on this 10 percent, letting enterprises make repayment out of retained profits. Thus, government financial units advocate separation of taxes and profits, after-tax contracting, and after-tax debt repayment. Clearly, this is a short-sighted view that takes into account only parochial rather than overall interests, and



looks only at the present rather than the future. If not only the main door of an increase in depreciation rates is not opened while the rear door of before-tax loan repayment is kept tightly shut, enterprises' technical transformation is bound to come to a halt, and simple reproduction will be interrupted bringing about a shrinking of productivity. Consequently, simply putting an end to before tax loan repayment is not desirable. The General Department of the State Council Office "Investigative Report on Large- and Medium-Sized Enterprises' Problems" fair-mindedly pointed out that policies and measures that invigorated large- and medium-sized enterprises cannot be lightly changed without stifling the zeal of enterprises. It recommended, first of all, rescission of the policy that permits the collection from major overhaul and depreciation funds of an energy and transportation fund and a budget regulation fund. The 30 percent depreciation fund that units in charge in some areas have amassed should be entirely returned to enterprises, or regulations should strictly require that it be used for the replacement and transformation of enterprises' facilities to maintain enterprises' simple reproduction capabilities. Second, to change the situation in which enterprises devour their own capital, and to speed up renovation and transformation, it recommended a readjustment of fixed assets depreciation rates on the basis of the size of the difference between net value and original value while continuing to adhere to industrial policies and instituting differential depreciation. The time is not yet ripe to promote separation of taxes and profits and after-tax repayment of loans. I believe that these demands are apropos; they should receive serious attention.

### Li Yining Discusses Planning, Quotas, Markets

91CE0462A Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT] in Chinese No 1, 28 Jan 91 pp 2-8

[Article by Li Yining (0632 0110 1337): "Planning, Quotas, and Market Mechanism"]

[Excerpts] Proceeding from the unbalanced state of China's economy, I explore the relations between planning and the market from the perspective of uniting planning, coordination, and quotas. The law of value should be taken into account in all three areas. They all suggest that government management or regulation of economic activities constitutes regulation at a higher level, quite different from market regulation of the economy. In their regulation of the economy, there is always the question of "degree." In any given objective economic situation, the extent to which planning regulates the economy supplements that of the market. How well the economy is operating decides the degree of planned regulation and market regulation. As the objective economic situation changes, the degree of regulation by the two should also be adjusted accordingly. Finally I point out that if we fully understand the relations between planning and the market, we will not be obsessed with the idea of figuring out the optimal share of planning in the economy.

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### I. Premise of Discussion: The Reality of Imbalance [passage omitted]

In an unbalanced economy, that is, in an economy where the market is deficient, information does not circulate freely, prices are not flexible, the supply of resources is limited, and enterprises are not fully energized, the trader must adjust supply and demand in light of price information on the market. He must also modify his supply and demand activities based on information relating to the quantity of supply (source of goods) and quantity of demand (sales). Quantitative regulation and price regulation coexist and are complementary.

The tangible expression of quantitative regulation is quantitative quotas, or quotas, for short. Imposing quotas means allocating resources in accordance with set regulations. When demand exceeds supply, quotas can allocate what limited supplies or resources there are to the various parties on the demand side. When supply exceeds demand, quotas allocate limited demand (sales) among the various parties on the supply side. Balance achieved through quota is known as quota balance, a special kind of balance that is temporary and retroactive. The position of this balance is determined by either supply or demand, depending on which is smaller. So quota balance is supply-demand shortage balance subject to quantitative restrictions. Quantitative quotas are acceptable to traders because they achieve some sort of a compromise between the two parties in a situation of quantitative restrictions, a compromise from which they derive due benefits.

When there is an imbalance, quantitative quotas are unavoidable. Either the government imposes quotas in accordance with a plan or the market spontaneously hands out quotas (allocating in accordance with the principles of "first come, first buy" and "first come, first sell.") As a result, when people discuss the relations between planning and the market in a socialist economy, they almost invariably end up discussing the relative importance of spontaneous market quotas vis-a-vis planned government quotas. While not without significance, this kind of discussion is incomplete and one-sided. Most of the articles on this topic that I have come across thus far fail to discuss the relations between planning and the market other than in the context of quotas.

### II. Planned Quotas As Part of Socialist Planning

Planning work consists of three major parts: planning, coordination, and quotas. Planning refers to the formulation and execution of the macroeconomic development plan. Coordination means applying all tools of economic regulation in accordance with established policy goals and the macroeconomic development plan to regulate the relations between aggregate social supply and aggregate social demand, the relations between different sectors, the relations between regions, as well as



the income distribution relations between the various strata in society. In an unbalanced situation, when the market is unable to restore balance to the economy and is showing clear weaknesses, quotas are resorted to by the planning authorities to deal with the gap between supply and demand. As far as the national economy is concerned, planning and coordination are indispensable during any period of time. As for quotas, whether they are necessary or not depends on the circumstances in a given period of time. The more unbalanced the economy, the more extensive and more important quotas will be. When the economy becomes less lopsided, quotas will decrease correspondingly. If the economy is already in a balanced state or is basically in a balanced state, there is no need for quotas.

Economic imbalance can take one of two forms: demand exceeding supply or supply exceeding demand. For years in the past, the Chinese economy was unbalanced due to an excess of demand over supply. So the government introduced resource supply quotas. The planning agency is a veteran in dealing with this kind of quota. It may choose among the average principle, historical proportion principle, and objective principle, or use a combination of all three.

**Average principle:** When demand exceeds supply, allocate limited resources equally among the various demand units.

**Historical proportion principle:** When demand exceeds supply, allocate limited resources in accordance with proportions already established in history or proportions used at some point in the past (by taking a particular year as base).

**Objective principle:** When demand exceeds supply, allocate limited resources in order of priority and urgency, giving preference to those who are regarded as important.

In this way, planned quotas represent a fairly satisfactory solution to the problem of resource shortages, provided, of course, they are applied in accordance with the above allocation principles. If the average principle and historical proportion principle are misapplied, not only will the effective utilization of resource be affected, but the adjustment of the product mix and industrial structure will also be affected. This is true for the following reasons. First, resources are scarce to begin with. If we further allocate the resources evenly between the various demand units or allocate them in accordance with an inappropriate ratio developed in the past, then resources are bound to be used in an inefficient manner. Second, allocating scarce resources by dividing them equally among the various demand units or in accordance with a historical ratio will only perpetuate an irrational product mix or industrial structure, making adjustment even more difficult. If the objective principle is misapplied, the result is that what should be protected is not protected, what should be reduced is not reduced. Priorities

become nonpriorities, while nonpriorities become priorities. Resource utilization will become even less efficient.

For these reasons, the design and implementation of planned quotas are something that merits a lot of attention. It must be stressed, however, that if supply and demand are in balance, quotas will either be unnecessary or have no effect. The only time when quotas are needed is when supply and demand are out of balance and when resources are limited. Only then will these issues arise: Which is more important, spontaneous market quotas or planned government quotas? What should be the proportion between them? In short, quotas are just one part of economic activities and planned quotas are just one part of socialist planning work. It would be wrong to equate planning work with the design and implementation of planned quotas, just as it would be wrong to equate economic activities with quotas.

In my opinion, both planned and market economies cover the whole society. Market economy covers the whole society because in a commodity economy, the law of value operates everywhere, including planned quota work. If planned quotas are to work, it must take into consideration the law of value and avoid removing planned quota prices from the demand of the law of value excessively. Planned economy covers the whole society because two of the three major components of planning work, planning and coordination, clearly cover the entire society. As for planned quotas, admittedly commodities under quota account for just a portion of all commodities (because quotas are imposed only on those commodities where there is a supply gap and where resources are limited). Bear in mind, however, that commodities are interdependent through their inputs, outputs, costs, and prices. Slapping planned quotas on some commodities will affect other nonquota commodities. Accordingly, the impact of planned quotas will also be felt throughout the entire society. This is something we must not overlook as we examine the relations between planning and the market.

### III. Unscientific Government Quotas Are a Distortion of Planning

A new situation has arisen in the Chinese economy: market sluggishness. Although market sluggishness is structural, the swollen inventories of some commodities are still a fact that cannot be overlooked. Traditional planned quota work is no answer to the new situation. This is why. When demand exceeds supply, the planning department can take the initiative to allocate scarce materials as the situation requires. There is a scramble for materials among the units at the demand end, fearful that they do not have enough quotas. When supply exceeds demand, however, the initiative is in the hands of units at the demand end, who are less than eager to obtain new commodities or are even unwilling to take whatever allocated to them in accordance with the quotas. The result is a host of new problems such as the following:

A) Delays in paying off loans. Buyers say, "I had no intention to buy the commodities to begin with. Now that they have been allocated to me, I have no choice but to keep them. But I cannot come up with the money for the moment. Alternatively, you are free to take the stuff back." Enterprises influence one another. When they fall behind in loan repayment, the result is "triangular debt," "multi-sided debt," and debt chains.

B) Mandatory pairing. Since the sluggishness of the market is structural, it means some commodities are selling briskly while others cannot find a buyer. Inevitably mandatory pairing has become part of some deals, related to quotas in many cases. For instance, a scarce commodity is under quota. But some sales units demand that its purchaser buy some other sluggish commodities as well. After weighing the pros and cons, a demand unit, anxious to acquire what it badly needs, has no alternative but to purchase the entire package. As a result, it has to shell out significantly more money to acquire his stock of goods.

C) Regional separatism. Regional separatism can be seen as a distorted allocation of market share. When supply exceeds demand, there is a limit to what the market can take. Thus, some localities resort to the distorted allocation of market share, requiring local commercial enterprises to purchase local products only, for instance, or by restricting the entry of nonlocal commodities or limiting the freedom of units to procure from out of town. Such practices do a good deal of harm as they divide a unified national market into many closed markets and impede the circulation of commodities. They protect local enterprises that are of a low technical level and have poor economic results, and inferior but high-priced local commodities. The consequence is not only low resource utilization efficiency nationwide, but also an increased burden on consumers.

Both mandatory pairing and local separatism mentioned above are inconsistent with the principles of planning work and must be checked. They pose the following questions for our planning work: Given a sluggish market, should the planning department still stick to macroeconomic planning work and macroeconomic coordination work? Do we still need planned quotas? If so, how do we go about allocating planned quotas? These issues have yet to be addressed. However, there is no doubt that unscientific government quotas are a distortion of planning work.

We must realize that planned quotas are needed in a socialist economy mainly because they increase the efficiency with which resources are used and ensure that resources are allocated properly so that the economy will operate normally at a time when supply and demand are not balanced and resources are limited. Certainly market regulation also can allocate resources under these circumstances through spontaneous quotas, but not too efficiently as reflected in the fact that resources in short supply are not necessarily used in industries and sectors where the need is most acute and that chance plays a key

role in the process of spontaneous quota allocation. ("First come, first buy" and "first come, first sell" are closely related to opportunity, or "trying one's luck.") However, when government seeks to impose quotas unscientifically through "regional separatism" and "mandatory pairing," the irrationality of resource allocation will be magnified and the efficiency of resource utilization will be further reduced, with results even less desirable than those of spontaneous market allocation. Needless to say, this kind of government quota is a distortion of planning work. We would be better off getting rid of them and letting the market allocate spontaneously.

#### D. Planned Quotas Amid Market Sluggishness

In view of the realities in the economy today, we need to adopt new methods in planned quota work. In my opinion, we should not simplistically ask whether or not we really need planned quotas when the market is sluggish. Rather we should ask ourselves: What kind of planned quotas do we really need? This is discussed at three levels below:

First, because the sluggishness of the market is of a structural type, with scarce commodities coexisting with commodities that are moving slowly, at a time when the national economy as a whole is characterized by under-supply, planned quotas cannot be abolished for the time being. We are still relying on planned quotas to relieve some of the more severe shortages.

Second, when it comes to commodities that are not selling well, we must handle them on a case by case basis depending on the nature of the commodity in question (capital goods versus consumer goods, major commodities versus minor commodities) and the size of the inventories. When consumer goods are not moving well, planned quotas cannot be abolished. When minor capital goods are not selling briskly, planned quotas can be abolished. Even in the case of important capital goods, if the overstocking is serious enough, planned quotas may also be abolished.

Third, the main problem has to do with key capital goods where there is some, but not much, overstocking. I think the planned quotas on these capital goods should be retained. The planned quota work here can be tackled in two ways. On the one hand, we should set up production quotas at the production end to avoid over-production and a waste of resources. Another objective of production quotas is to take care of the existing key enterprises that produce key capital goods. With production quotas, it is hoped that these enterprises can maintain output at a substantial level and obtain a sizeable income, instead of experiencing wide swings in production in the midst of a sluggish market, which will militate against national economic development in the future. On the other hand, we should impose supply quotas at the supply end for energy, transportation, and important raw materials to

ensure that production quotas are realized. Both production quotas and supply quotas are related to the adjustment of the product mix and industrial structure and to the fact that enterprises have been cutting production to varying extents. (Some have suspended operations or switched to other lines of product altogether.) For this reason, we say that planned quotas still serve a purpose. If we impose sales quotas on products without introducing quotas at the production and supply ends, the upshot would be such anomalies as regional separatism and mandatory pairing. Alternatively, whatever good sales quotas do would be neutralized.

In short, planning work has indeed run into new problems to date. Correspondingly, therefore, our planning work should also rise to a new level. Keeping some planned quotas meets the need of the new economy. Replacing sales quotas with production quotas under some circumstances also meets the need of the new economic situation, as does abolishing some planned quotas.

Another issue is involved here: Would keeping some planned quotas and replacing sales quotas with production quotas and supply quotas heighten the conflict between the market mechanism and the government regulatory mechanism in economic operations? Again, we cannot answer this question with a simple yes or no. Let us first assume that they do intensify the conflict between the two kinds of mechanism in the course of economic operations, causing some damage to the market mechanism. We then must consider closely if this kind of conflict or damage is worthwhile. To answer the latter question, we must determine the effects of regulation. Suppose the market mechanism provides a solution to the problem of market sluggishness and eases shortages promptly. Why then do we retain some planned quotas? Suppose the market mechanism can effectively adjust the product mix and industrial structure under the existing economic system and straighten out structural imbalances. Why then do we replace sales quotas with production quotas and supply quotas under some circumstances? We can thus see that it is precisely because the effectiveness of the market mechanism is limited by the unbalanced nature of the economy in real life that we need to retain some planned quotas and replace sales quotas with production quotas and supply quotas under some circumstances. The effectiveness of these practices is such that even if they intensify the conflict between the two kinds of mechanism and disrupt the market mechanism to a certain extent, they are worth it.

Second, it must be made clear that there can be no fully competitive market, only incomplete competitive market, when supply and demand are out of balance and when resources are limited. To put it differently, the market mechanism has already been somewhat disrupted in this situation. This is true because incomplete competition is both a precondition for the disruption of the market mechanism as well as a product of such disruption. In this sense, introducing planned quotas under these circumstances does not seek to replace

incomplete competition with full competition, but to replace one form of incomplete competition with another form of incomplete competition, replacing one kind of market disruption with another. People who think that the introduction of planned quotas in an unbalanced economy is a disruption of a fully competitive market fail to understand the characteristic of the unbalanced economy and so idealize market competition and the market mechanism in such an economy. In this sense, whether it is more appropriate to replace this kind of incomplete competition with that kind of incomplete competition or vice versa is a question that can be answered in the light of the results of regulation.

#### E. The Need to Step Up Planned Coordination and Planning Work

As noted above, planning work consists of three major parts: planning, coordination, and quotas. For years in the past, however, it was assumed widely but wrongly that "planning comprises only the formulation and implementation of quotas to allocate human, financial, and material resources." In contrast, the other two tasks of the planning agency, planning and coordination, did not receive the attention they deserved. When shortages were widespread, it is understandable that the importance of planned quotas was stressed. But now that we have run into a new situation—a soft market, the exclusive emphasis on the significance of planned quotas while overlooking that of planned coordination—may well lead us astray in our planning work.

The need to adjust planned quota work was discussed above. Here we look at the need to step up planned coordination and planning work.

First, the need to intensify planned coordination. When the market is soft, the purpose of using macroeconomic regulatory tools is not to stimulate demand, as is usually the case, but to expedite the adjustment of the product mix and industrial structure. Thus, the intensification of macroeconomic coordination goes hand in hand with the structural adjustment of budgetary incomes and expenditures, the structural regulation of the scale of credit, and interest rate regulation. But this is where the difficulty lies. On the one hand, even if the scale of spending and credit is expanded, we may still have the usual demand explosion, which will negate the successes of the drive to rectify the economic order and improve the economic climate, if enterprises and localities have no profit-restraining mechanism. On the other hand, budgetary spending and credit may be reduced structurally, but if such reduction is not accompanied by the establishment of a social security system and effective channels for the circulation and regrouping of capital goods, we will still fail to realize the goal of adjusting the product mix and industrial structure. What is more, the weakness of the market may also be prolonged and intensified. This shows that if we are to strengthen planned coordination work and employ macroeconomic regulatory tools effectively, we must immediately establish and improve the profit restraining mechanism of

enterprises and localities, expedite the reform of the social security system, and open up or perfect effective channels for the circulation and regrouping of capital goods.

Now let us take a look at how planning work can be improved. When the market is soft, the most important thing from the perspective of macroeconomic planning is to determine with a fair degree of accuracy the point at which aggregate social supply would balance aggregate social demand, work out the difference percentage, and project the trend for its movement in the foreseeable future. At the same time, we should also be able to project fairly accurately the trend for future changes in the supply and demand of certain key products. Only armed with these projections can we work out the economic growth rate, industrial structural adjustment objectives, the income distribution control line, so on and so forth. If we only take note of the sluggishness of the market while ignoring its structural nature, or if we mistake the negative supply-demand difference to be a positive one, then there is absolutely no doubt that this kind of macroeconomic planning will only impact the economy negatively.

We can thus see that equal weight should be attached to the adjustment of planned quota work and to the strengthening of planned coordination and planning work. The notion that the "work of the planning agency consists of nothing more than determining and implementing quotas for materials in short supply" should be abandoned.

#### F. Relations Between Planning and the Market from the Perspective of the Three-in-One Unity among Planning, Coordination, and Quotas

As noted previously, planning work is made up of three parts: planning, coordination, and quotas. When the economy is in balance, there is no need for quotas. This is true because when the economy is in balance, there is neither over-supply nor an excess of demand. When the economy is in balance, the integration of planning and the market manifests itself as the integration between planning and coordination, on the one hand, and the market mechanism, on the other. Such integration is quite natural. The market mechanism regulates supply and demand, planning maps out the future course of the economy, while coordination seeks to reconcile the temporary and partial conflict between supply and demand and between structures based on the demand of planning. When the demand of planning is incompatible with economic operations under market regulation, we may revise the plan or adjust supply and demand through coordination. Mind you, the gap between supply and demand when the economy is in balance is only temporary and partial. Therefore, provided coordination takes the law of value into account and applies certain economic regulatory tools properly, temporary and partial supply-demand incompatibility will disappear.

Nevertheless, as pointed out earlier, a balanced economy is a theoretical hypothesis. In real life, the economy is unbalanced, that is, there may be too much supply, or too much demand, or both. Under these circumstances, apart from a need for the continued existence of planning and coordination, planned quotas are also indispensable. From the perspective of the three-in-one combination of planning, coordination, and quotas, this is the relationship between planning and the market.

First, planning, coordination, and quotas should all make the most of the law of value. As far as planning and coordination are concerned, it is relatively easy to take the law of value into account. The problem is how to do so in the case of planned quotas. The problem manifests itself mainly in these two ways. On the one hand, planned quotas do not mean getting something for nothing, but getting something for something. And since planned quotas mean getting something for something, it raises the question of the setting of allocated sale prices. Such prices should be determined on the basis of the law of value, taking into account the actual circumstances and supply-demand price elasticity, so that the extent to which such prices deviate from the law of value is reduced to a minimum. This will certainly do less damage to the market mechanism and is therefore more favorable to the economy than setting allocated sale prices subjectively and arbitrarily.

Second, planning, coordination, and quotas all suggest government management or regulation of economic life. This is regulation of a higher order, different from market regulation of economic life, which is regulation of a lower order or basic regulation. In this sense, all problems that low-order regulation has resolved or can resolve need not be resolved by high-order regulation. Of the three—planning, coordination, and quotas, the situation varies in each case. 1) Drawing up plans for the social economy has always been the job of organized institutions. The market regulates only spontaneously. The market cannot draw up plans for the social economy. As for nongovernment private organizations, although they too are organized institutions and can make plans for the social economy, their plans carry no authority and are not assured of implementation. Thus only the government can draw up social economic plans. This is the first major component of planning work. As far as planning is concerned, it is inevitable for high-order regulation to replace low-order regulation. 2) It may be the government that regulates the social economy, or it may be the market. Spontaneous market regulation itself seeks to smooth out the relations between supply and demand, between different trades, and between different geographical areas. If market coordination can resolve a problem or can resolve a problem within the time-frame required by the government plan, it would not be necessary for the government to coordinate. Government coordination is necessary only when the market cannot coordinate successfully or cannot do so within the time-frame required by the government plan. When government does step in to

coordinate, it would be high-order regulation replacing lower-order regulation. 3) As for quotas, it has been discussed at length in the preceding paragraphs, so let us summarize it here. When there is an objective supply-demand gap and when resources are limited, planned quotas are the only answer to closing the gap. Under these circumstances, high-order regulation replaces low-order regulation. We can see from these three points that whether it be in planning, coordination, or quotas, the relations between the market and planning is that between low-order regulation and high-order regulation, that is, the relations between first-time regulation and second-time regulation.

Third, there is a matter of "degree" in planning, coordination, and quotas. How to determine the degree? Generally speaking, this question is related to the objective economic situation. If, for instance, the economy is operating well, planning may be cut back, coordination may be lessened, and the scope of quotas may be narrowed even if there is a supply-demand gap, but not too large, and some constraints on resource availability, but not too stringent, meaning that the imbalance in the economy is minor. In contrast, if the objective economic situation is poor, the economy is limping along, the supply-demand gap is quite large, and constraints on resources rather severe, then correspondingly planning may be broader, coordination more extensive, and the scope of quotas wider. In adjusting the "degree" of planning, coordination, and quotas, the relations between planning and the market is not only one where the former takes into account the function of the latter, or one where the former replaces the latter and vice versa under some circumstances. Instead, the relations between planning and the market is a complementary one. In other words, given an objective economic situation, the degree of planning and the degree of market regulation supplement each other. The "degree" of planning and the "degree" of market regulation are determined by the extent of the imbalance in the economy, the magnitude of the supply-demand gap, and the state of the economy. As the objective economic situation changes, the degree of planning and the degree of market regulation should be correspondingly adjusted.

Provided we understand these three points, we will appreciate the relations between planning and the market comprehensively and will not remain wedded to the out-dated idea of trying to figure out the optimal share of planning in the economy.

### Goods Sold Below State Fixed Price

91CE0397A Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 1, 15 Jan 91 pp 27-30

[Article by Chen Yumin (7115 5148 2404) and Lu Lijun (4151 4539 0689): "Why Are State Fixed Prices Not Reached?"]

[Text] In contrast to the alternating price rises and panic purchasing of 1988, since the last half of 1989, a new

pattern has emerged in market pricing. It is mainly manifested in: Market slumps and price wars with the state fixed price not reached (i.e. the actual price of state fixed price commodities is lower than the price set by the state). Up until now, there have been a great number of commodities for which the state fixed price has not been reached, this has continued for a long time, the range has been great, and the practice has had a profound effect on the functioning of the national economy.

### I. The Current Situation of the State Fixed Price Not Being Reached

Generally speaking, the phenomenon of not arriving at the state fixed price has the following four characteristics:

1. There are many categories of commodities for which the price is not reached and it has widespread involvement. Manufactured consumer goods for which the state fixed price is not attained include textiles, laundry soaps, liberation shoes, bicycles, sugar, millet wine, and color televisions; means of production include in plan rubber and cement; and agricultural byproducts such as hogs. There also are some charges such as transportation fees that do not reach the mark.

2. There is a wide range of prices not reaching the mark. The selling price for millet wine and beer produced in a considerable number of districts has fallen below cost. In 1990 the standard retail price for laundry soap was raised from 0.78 yuan per bar to 0.95 yuan per bar, but in most areas the average selling price was lower than the price tag and a few even fell below the original price, selling them in large quantities at 0.71 yuan per bar. Steel-plated thermos bottles actually sold for approximately one yuan below the state specified price.

3. The duration is long. They are divided into two groups. The first is where the regulated commodity continuously falls short of the mark. For example, at the end of 1989 textile prices were adjusted on the basis of rising production costs, but the actual prices of most varieties were five to 20 percent below the list price. In 1990, the price of cotton went up and a rise in the production costs of textiles followed, but the market demand was still rather weak and the contradiction of the newly adjusted price not reaching the mark became even more pronounced.

The second is where raising the price does not reach the mark and after lowering the price it still does not reach the mark. For example, in February 1989 the state adopted special measures for color televisions because the taxes and the prices were too high and the color televisions were slow sellers. Production and business enterprises lowered the price on their own. In March 1990 the state reduced the taxes and lowered the price on color televisions, and the newly stipulated state prices still were not implemented.

4. The prices of high grade products reach the mark, but low grade products generally do not reach the mark. For

example, the prices of such things as raw materials for breweries, the yarn for cotton goods, and gray cloth reach the mark, but the majority of the resulting products are limited by market supply and demand and do not reach the mark.

## **II. The Danger of Prices Not Reaching the Mark Set by the State**

1. The prices of a number of commodities do not reach the mark. Price wars cause the economic performance of production and business enterprises to slip and losses to increase, affecting the vitality of the enterprises. State taxes and profits have fallen off greatly and financial deficits have increased greatly. According to data of the Zhejiang provincial budget for January through September 1990, profits realized by state-operated industries were 44 percent lower than the same period in 1989, profits and taxes on state-operated businesses were down 43.3 percent, and local revenues from enterprises were down 56.2 percent.

2. It seriously affects respect for the state's price fixing authority. Some comrades briefly describe prices not reaching the mark as paperwork that does not function and price dislocations as supply and demand out of control.

3. It creates chaos in production, circulation, and market pricing procedures, making them more difficult to manage.

## **III. The Reason That Prices Do Not Reach the Mark Set by the State**

The reasons that prices do not reach the mark set by the state are very complicated and profound. They have the following three principal aspects:

### **1. Supply and demand in the immediate market.**

First, the main problem is that immediate demands are not sufficiently related to ultimate market demands. In the first place, investment and consumer demands are doubly restricted during improvement and rectification. The second thing is the drag from the 1988 buying craze. The third thing is that the prices of some commodities in recent years have been excessively inflated, exceeding the necessary working capacity of society and citizen endurance. Fourth, since 1990 consumer expectation of price decreases and the corresponding buying power of society have been converted into future demands, causing immediate demands not to be sufficiently related.

Next, regarding immediate market supply, due to excess construction in the processing industries—especially in construction of color television factories, refrigerator factories, and breweries—in recent years, production capacity has exceeded demand. This causes the volume, quality, and product mix of current supplies to have an effect on state prices not reaching the mark that cannot easily be overlooked. Since the beginning of reform, Chinese enterprise operations and mechanisms have

changed greatly with the impetus of local profits and expanded enterprise autonomy. In addition, the government has been unable to exert unified regulation and control over excess production. Also most state-operated production enterprises are still accustomed to an atmosphere where "products sell quickly, so there's no need to clean them up any" for the sales market. So, when there are changes in present market demand, the localities adopt a protective policy and enterprises are slow to adjust the product mix. They still want to continue to produce and flood the market with low quality, high cost merchandise that the market does not welcome. Because, on the one hand, the quantity of some merchandise supplied expands and, on the other hand, the product is of inferior quality and the styles are old, according to the rules of the market, it will necessarily be difficult to honor a state fixed price higher than the average price in society. Finally, as regards intermediate supply and demand, there is a false increase effect. When there is a slight shortage of a product, row after row and layer after layer of warehouses are constructed waiting for the right price to sell. On the other hand, when there is a slight abundance of a commodity, everyone is eager to promote sales and clear out the warehouses and artificial aggravation of the supply and demand contradiction creates additional pressure for the price not to reach the mark.

### **2. Circulating Group Price Activity.**

(1) Industrial Enterprises Selling at a Low Price on Their Own. Because the immediate market demand is insufficient, factories looking out for their own profits have flexible pricing, adding some loopholes to the settling of the bill. The factory often provides the individual business with a better price than the state-operated business.

(2) The Individual Business Buys at a Low Price and Sells at a Low Price. The individual business takes advantage of the fact that its facilities are simple and crude, expenses are low, and that, along with a low purchasing price, tax evasion, and flexible business practices, it is taxed lightly, which constantly expands their share of business in state regulated merchandise such as soap, textiles and knit goods, bicycles, and cigarettes. For example, individual vendors in the Yiwu City small merchandise market buy soap from the Lanxi factory at only 18.9 yuan per case, add transportation and miscellaneous expenses and maintain their price at 19.20 yuan, and they sell it retail at the low price of 19.50 to 20 yuan, nearly monopolizing the market. The state-operated soap businesses are overstocked and are squeezed out of the market.

(3) State-operated Businesses Are Forced To Abandon State Fixed Prices. State and cooperative businesses should be in control of the market and be the main force implementing state set prices, but because industries and individual businesses in all the trades and professions have entered the wholesale area for state-fixed price merchandise and their market share is in proportion to

or even in excess of state-operated businesses, the state-operated businesses, caught in the two-way squeeze between industries dumping at a low price and individual businesses buying at a low price and selling at a low price, "like a clay idol crossing the river, they are hardly able to save themselves." In order to do their utmost to maintain the share of the market that they already have, state-operated businesses are forced to adopt measures to "yield profits rather than territory" and join the ranks of the price wars.

### 3. Mistakes in Administrative Policy Decisions and Financial Restrictions

Mistakes in administrative policy decisions include two aspects: The first is selecting too many goods to have their prices fixed by the state. This leads to some "controlled product" prices that are poorly controlled or cannot be controlled at all. If they do not raise prices themselves, then they blindly reduce prices.

The second aspect is the mistake of determining the fixed price. In adjusting prices they are unable to properly reflect the law of value and rules of supply and demand. This is manifested in: (1) The relevant department considering only the cost for some products, while not having much of an understanding of supply and demand or giving it full consideration. (2) Excessively emphasizing price control indicators, sometimes freezing market prices, and sometimes opening the floodgates with spiralling inflation, creating price adjustments that neither consider costs nor supply and demand. For example, for a long time, soap prices were kept down through financial subsidies; before the price was adjusted, the factory switched to using low-cost, imported palm oil. Production costs were low, and obviously soap production exceeded soap sales. Both from a production-cost perspective and from a supply-and-demand perspective, temporarily there was no need to raise prices. However, the price was raised, because the finance department wanted to reduce the lard subsidy, the production department was worried about critical stoppages, and the comprehensive department was concerned about low price indices. Ultimately they were forced to reduce the price.

In addition, the price's reflection of supply and demand itself must be limited by such factors as financial resources. Take for example, cotton textiles. In 1990 the price of cotton went up. If all the inflationary factors were figured into the costs, the price of cotton textiles would be raised further. But a price rise would be unacceptable to the present market. So, when the market situation is essentially unchanged, the choice is either to grant a financial subsidy for raw materials or reduce or remit product taxes, or let the prices, take their natural course and not reach the mark. If we do the latter, it will necessarily dampen the enthusiasm of the factory. If we do the former, the current financial situation will be impossible and the outcome must be considered.

### IV. Some Points To Be Considered

In summarizing the situations and the problems described above, we bring up the following considerations and suggestions:

1. Clear up and revise limits on price control authority and reduce the range of commodities for which the state can fix the price. We should fully consider the following essential conditions in implementing state-fixed prices on an assortment of goods: (1) the relationship to the national economy and the people's livelihood; (2) the possible larger overall effect; (3) regarding production and marketing characteristics, a single variety with a major production delay and rather little resiliency in supply or demand; (4) in market type, whether the product is to be controlled or monopolized; (5) and regarding resources, those resources in short supply or nonreproducible resources. For those products with numerous varieties, complicated specifications, and quickly changing designs and colors that are very seasonal, have a short cycle of popularity, very resilient supply and demand, and are very competitive, except for a few important commodities for which the state gives price guidance, the rest for which there is not a great contradiction in supply and demand and that are even high grade consumer products can have the price adjusted by the market, fully utilizing the price to regulate production and direct consumption. For industrial consumer products such as sugar, table salt, ordinary flash bulbs, and soap, as well as principal fuels and medicines we should continue to have a state-fixed price. For thermos bottles, enamelware, rubber-soled shoes, raw nails, and iron wire it is suitable to change to state-guided prices. For some products we also can proceed from reality and divide up the business sectors to adopt different forms of price controls. For example, products such as cigarettes, alcohol, and color televisions for which there is a high tax, high profit policy can be divided into the production, wholesale, and retail sectors to adopt state-fixed prices, directed prices, and market regulated prices, respectively. Also, for such high quality products as cotton yarn for textiles and gray cloth, we should implement a state-fixed price. For prints, cotton prints, yarn-dyed fabrics, silks, woolens, ordinary cotton shirts and trousers, T-shirts and undershirts, we can implement directed prices. For various types of clothing and other knit goods we can implement market regulated prices. Similarly, we should implement state directed prices for sheet paper and free up paper products. According to the line of reasoning above, the form of regulating prices not only can protect the interests of the consumer and the producer, but also helps to ensure state accumulation and at the same time properly stimulates prices, helps in quality control, and promotes adjustments in the product mix.

### 2. Implement Overall Control of State-Fixed Price Commodities

For products for which it has been decided to implement a state-fixed price, we should adopt relevant overall



control measures to uphold the seriousness of state-fixed prices. (1) Administration of prices and plans should be integrated. All products listed as state-fixed price products, premised on the state's ability to regulate production and marketing relations, should have strict directed plan controls on their production, purchasing, and sales, and the decision to raise the directed plan price should be scientific. (2) Prices should be integrated with macro-economic controls. In view of the present financial system, first for all seasonal state controlled commodities, in accordance with the controlling authority of each echelon, we should establish a corresponding central, provincial, and municipal storage system to help regulate supply and demand. For wholesale enterprises at each level that assume the burden of storage, besides expanding seasonal price differences and compensating for some expenses, we should pay interest in the form of deductions and replenish finance departments at the same level and correct the contradictions between government activities and enterprise profits. Secondly, we should strengthen control of tax revenues. To guard against small merchants evading taxes and affecting the normal operations of state-operated businesses, we should change the sales tax withheld from state-operated wholesale businesses to a direct levy by the tax department. Thirdly, we should levy a market regulation (risk) fund on the whole society to use to regulate the intake and outgo of state-operated businesses and stabilize prices. For example, in recent years the price of imported palm oil (used in making soap) has been rather low on the international market. It is appropriate to raise the supply price and convert the price difference to a risk fund to use abundance to make up for deficiency or subsidize lard. (3) We should bring all products with state-fixed prices into the same market to be controlled by relevant departments or trades whether they are from state-operated or collective businesses or rural enterprises and whether they are marketed by industries themselves or by individual businesses.

### 3. State Price-Setting Decisions Should Be Made Scientifically

State-fixed prices are a concrete reflection of planned adjustments formed from the pricing system of the socialist planned commodity economy, and the key is how we abide by the laws of supply and demand and the law of value in scientifically setting prices.

First, we must change the long-standing tendency to control price indices as a basis for regulating prices in abnormal situations. In normal situations, those tight-fisted price indices, the renewed high concentration of authority, and the special batch of upper echelon department controls are undesirable. Not only do they create new price dislocations and price imbalances, but they also create the reverse psychology of producers and managers seeking higher, not lower, prices. In recent years, industrial and commercial enterprises, on the one hand, have price wars and commercial enterprises do not dare to absorb the price difference from the state stipulated producer price; on the other hand, factories

strongly demand increases in the producer prices and commercial enterprises also demand an expanded price difference. Of course, they both have their objective reasons, but subjectively they both have received the lessons from a succession of controls and price freezes. They would rather the price did not reach the mark and demand increased producer prices and expanded price differences.

Secondly, we must improve the democratic and scientific nature of price setting and price adjusting. In recent years, the state system for controlling commodities has become more and more concentrated. In quite a few localities, the department responsible for comprehensive pricing, when it makes its decisions on setting or adjusting prices, often cuts out the departments responsible for the professions and even bypasses the department responsible for places of production and gives direct approval. Acting in this way not only disrupts the normal division of responsibility and procedure for price setting and adjustment, but also often divorces pricing decisions from the market and from reality. Accordingly there is a great need to adjust the division of responsibility among departments and establish a regular procedure for setting and adjusting prices to improve the balance and coordination of the comprehensive department and bring the departments responsible for the professions into the decisionmaking.

Finally, based on the need for macroadjustments in the national economy and social development and considering economizing on raw materials, balancing supply and demand, providing revenue, and preserving the basic interest of the consumer, the state-fixed price of a few commodities can produce a demand that is not in keeping with their value, causing the price to the consumer to be higher or lower than their value. These demands are necessary from the perspective of developing the national economy, but they can only be realized by a national policy on the consumer price for certain commodities and they certainly cannot be realized in the price to the producer and the business. When nominal prices are unable to permit the producer and the business to compensate for production and business costs and obtain a reasonable profit, and they must be supplemented by tax revenues and financial adjustments.

### 4. Adjustments in the Product Mix and the Price Difference Structure

Adjust the product mix, improve product quality, and make the production structure constantly adapt to the demand structure. (1) Expand the price difference for quality. A price differential for product reputation encourages enterprises to actively improve quality and strive to create a product name. (2) Deepen enterprise reform, strengthen enterprise management, and urge enterprises to develop new varieties and new designs and colors that have a ready market on the international and the domestic market, increase exports, and initiate markets.



**Status of Current Planning System, Future Reform**

91CE0475A Beijing JINGJI YU GUANLI YANJIU  
[RESEARCH ON ECONOMICS AND  
MANAGEMENT] in Chinese No 1, 8 Feb 91 pp 1-5

[Article by Liu Zewei (2692 3419 0251): "Thoughts on Current Planning System, Future Reform"]

[Text] Besides deciding on the tasks of economic development and continuing reform during economic rectification, the Fifth Plenum of the 13th CPC Central Committee also put forward a specific demand on reform of the planning system, which is that we must continue to integrate the planned economy with market regulation. Not for a single moment can we waver in this. Thus correctly understanding the new planning system and setting new goals for the reform of the planning system during the Eighth Five-Year Plan will decide the direction and progress of economic structural reform in China.

**I. The New Planning System To Date**

Since 1979, along with continuing reform of the economic structure, reform of the planning system has also made major progress. Significant changes have been made to the original planning system. A new system consistent with the demands of the planned commodity economy is gradually taking shape. To date China's planning system has some new patterns and new characteristics:

A) Changes in the planning decision-making system. The scope of the planning decision-making has been reduced at the center. Enterprises and, in particular, local governments have notably more planning authority, and interests have multiplied. More than a decade of administrative simplification has diminished considerably the planning decision-making authority of the central government. Enterprises and localities are the object of regulation and control by the central government and regulators and controllers themselves with specific planning decision-making authority. However, the planning decision-making authority has not been divided between the center and the localities, and between the state and enterprises. Financial authority, work authority, and economic management authority are not allocated properly. Authority, responsibilities, and interests are divorced from one another. There is an urgent need to set up self-balancing and self-restraining mechanisms.

1. As the principal planning regulator and controller, the state has seen a drastic reduction in its planning decision-making authority in these five areas:

A) Investment. First, the share of planned investment has been declining year by year. In 1984, investment within the budget, investment financed by bank loans, and investment financed by foreign loans centrally borrowed and repaid, all of them within the jurisdiction of the State Planning Commission [SPC], accounted for 63.3 percent of all fixed assets investment by units

owned by the own people. By 1988, the proportion had dropped to 24.6 percent. Second, the authority to examine and approve investment applications has gradually been delegated. The minimum value of projects that need SPC examination and approval was raised from 10 million yuan in 1984 to 30 million yuan at present. In 1987, the minimum value of projects in energy, communications, and the raw materials industry that need SPC examination and approval was increased to 50 million yuan. In 1988, the minimum value of productive capital construction projects and technological transformation projects in Guangdong, Fujian, Hainan, and Shenzhen that need SPC approval was increased to 200 million yuan provided they are in line with the national industrial policy and can balance themselves in every way. Third, use of foreign capital: the overall amount of foreign capital used by a locality or sector is determined by the SPC. All nonproductive projects must be examined and approved by the SPC, as all are tourist hotel projects.

B) Allocation of goods and materials: The number of materials centrally allocated and distributed by the SPC is declining steadily, from 256 in 1979 to 19 in 1989.

C) Commerce: First, fewer and fewer commodities are being procured and allocated by the state, from 65 (Class 1 commodities) in 1979 to 20 in 1989. Second, commodities under planned management account for a shrinking share of total resources. Except for a monopoly on the buying and selling of some commodities, others are managed by the plan or market.

D) Imports, exports, and foreign exchange control: First, the number of exports centrally allocated by the SPC has plunged, from 900 in 1980 to 27 in 1989. At present, these 27 commodities account for 20 percent of the nation's total exports. Second, in 1989 the state centrally handled 13 imported commodities, imposed quota management on 47 imported commodities, and restricted the importation of 20 electrical machinery products. In terms of foreign exchange used, the 13 types of imported commodities under centralized state management account for just 40 percent of the nation's total imports. Third, foreign exchange earnings at the disposal of the state make up less than 50 percent of all foreign exchange earnings.

E) Central revenues and expenditures. First, revenues of the central government make up a declining share of national income, slipping from 31.9 percent in 1979 to 19.2 percent in 1988. Second, the revenues of the central government have been dropping too rapidly as a share of the nation's total revenues, from 70 percent in the 1950's to 47.2 percent in 1988. Third, extra-budget funds have risen sharply, soaring from 45.285 billion yuan (equivalent to 42.4 percent of funds within the budget) in 1979 to 236.08 billion yuan (equivalent to 94.8 percent of funds within the budget) in 1988.

2. To a certain extent authority delegation has corrected the problem of over-centralization of the old planning

system. However, a number of new problems have arisen. First, multiple interest entities and the continued practice of eating from the big rice pot coexist. Second, some work authority should be delegated but is not; in other cases, the reverse is true. Both scenarios exist side by side. Third, horizontally there is a lateral fragmentation of authority between different government agencies. Vertically, the central government has been delegating authority to local governments at all levels and has limited ability to regulate and control at the macroeconomic level. The delegation of policy-making authority has brought an end to the one-decision-maker situation in the past. The new multi-level decision-making system has played an important role in mobilizing local initiative. However, at a time when government administration and enterprise management are undifferentiated, excessive delegation has had one negative consequence—excessive fragmentation of authority. After localities were given too much power, there is no guarantee that local economic development objectives can be harmonized organically with the national economic development strategy. Regionalism and the rise of powerful local economies have undermined the ability of the state to make plans for reform and national economic construction as a whole. Because of regional blockades and duplicated construction projects, the capital and natural resources of society as a whole are not used effectively. National economic construction and economic structural reform are not able to benefit society as much as they should.

A) Instead of being simply an administrative tool as in the past, planning has become a collection of economic regulatory tools. As a means of economic regulation and control, however, it is not powerful enough and is of limited use. Traditional planned regulation stresses direct management and administrative tools and supervises and regulates economic activities through the setting of targets. As a result of reform in an earlier period, this situation has undergone major changes. The scope of command planning has gradually been reduced while that of guidance planning has been expanded and the reach of market regulation is broadening all the time. While administrative tools are still being used, a variety of economic tools such as prices, interest rates, and exchange rates that work through the exercise of economic leverage are playing an even more important role. Meanwhile, the law too has become a powerful means of regulation and control. For institutional reasons, however, the formulation of a plan is still haphazard and unscientific. Nor is the execution of planning mandatory. There is no effective coordination between the different instruments of economic leverage. Market regulation cannot operate as effectively as it should. Planning, and the market constantly work at cross purposes, as do administrative tools, on the one hand, and legal and economic tools, on the other, hindering one another. There are even areas of regulatory and control vacuum. The main problems are demonstrated in the following ways:

1. Planning is becoming less and less effective, directly affecting the ability of the state to regulate and control the macroeconomy. First, in the realm of industrial production, the number of commodities under planning by the SPC dropped from over 120 (which made up 40 percent of the nation's gross industrial output value) in 1978 to 50 (about 16.2 percent of the nation's gross industrial output value) in 1988. Second, command planning has been completely abolished in the area of agricultural production while guidance planning still remains for merely 15 major agricultural crops. After its scope was drastically reduced, the function of direct planning in regulating economic life has not been completely taken over by the market. To the limited extent that it remains, command planning has been seriously undermined by market regulation, resulting in extensive losses of resources within the plan. In addition, since the plan itself is not carried out in accordance with original provisions and a variety of compromises are made, the form of planning has also changed.

2. Administrative means are weakening by the day while economic and legal tools are becoming more and more powerful. Nevertheless the macroeconomic regulatory and control system is not comprehensive and cannot function effectively as one. Within planned management, as administrative simplification and authority delegation intensified and the market came to play a larger and larger role in recent years, administrative tools commanded and less attention while legal and economic tools are more frequently applied.

We must see that during the period of economic rectification, we must use administrative means to handle many issues to achieve the goal of curbing demand and increasing supply. But how can we minimize the negative side-effects of administrative tools so that they achieve the results that economic or legal tools cannot even begin to achieve in a short period of time without hampering economic growth or the improvement of new economic operating mechanisms, and create favorable conditions for sustained, long-term, and steady economic development? This is a major issue that economic structural reformers need to address quickly.

B). The planning organizational system has been unburdened of the restraints of the traditional vertical planning system. Bold experiments were carried out in a push for forging horizontal economic associations, in making the most of central cities, and in introducing the sectoral planned contracting system with considerable success. The rudiments of a multi-level, multi-player planning organizational system that is both vertical and horizontal are now in place. However, the strengthening of all economic interest entities has been unscientific and unsystematic. Many basic economic relations, subordinate relations, and the relations between rights and obligations have not been defined in a scientific or systematic manner.

1) The draft plans of enterprise groups should be submitted directly to the SPC. After they are reviewed in the

overall context, the relevant planning targets should be directly assigned to the enterprise groups.

2) Giving cities provincial-level economic decision-making authority. One after another a total of 14 central cities or opened coastal cities have been given provincial-level decision-making authority. Between February 1983 and February 1989, the State Council approved granting provincial-level decision-making authority to 14 cities, namely Chongqing, Wuhan, Shenyang, Dalian, Harbin, Guangzhou, Xian, Qingdao, Ningbo, Xiamen, Shenzhen, Nanjing, Chengdu, and Changchun. Their economic and social plans are submitted directly to the SPC and listed separately in the national plan.

3) The planned contract responsibility system has been introduced in six sectors. Since 1981, six sectors and companies, namely the oil-producing sector, coal-mining sector, metallurgical sector, the Chinese Nonferrous Metals Corporation, the Petrochemical Industrial Corporation, and the Ministry of Railways have introduced the planned contract responsibility system in varying forms and shapes. Within each sector, authority, responsibilities, and interests are integrated through level-by-level contracting.

Giving cities and enterprise groups provincial-level economic decision-making authority and contracting in the trades have indeed been highly successful. This is a fact visible to all. With the passage of time, however, more and more problems have come to the fore. First, many major relations have not been clearly defined and are fraught with contradiction after contradiction. The relations between a city with provincial-level economic decision-making authority and the central government and that between such a city and the province where it is located are highly complex. For example financial relations, when accounts are settled at year end, these relations can take any one of these three patterns. Some cities (eg., Ningbo) are directly pegged to the central government, not the province. Some (eg., Guangzhou, Xian) are not pegged to the central government; some follow a pattern of three-way (central government, province, and municipality) distribution. In the wake of local financial contracting, problems are prominent and relations more difficult to sort out. A similar situation exists in enterprise groups. Second, authority, responsibilities, and interests are not well defined. All decision-making bodies lack self-restraining, self-balancing mechanisms. For example, sectoral contracting has created two-level legal persons. After an enterprise becomes the center of investment and profit-making, it tends to act in a highly myopic way. There is widespread competition between sectors for the investment dollar and projects, even to the extent of severing linkages between sectors and within the sector itself.

4) Although some improvements have been made in the planning system and comprehensive allocation, overall it still cannot meet the need of the developing Chinese economy. The traditional planning system was characterized by an undue emphasis on economic growth rate,

short-term planning, and economic development, while ignoring economic results, mid- and long-term planning, and the coordinated development of the economy, science and technology, and society. Now the outstanding issue is that not only must we continue to correct the extensive weaknesses in the old system but we must also adapt the planning system and its working methods to the new post-reform and post-open policy era.

## II. Some Preliminary Ideas On How To Reform the Planning System during the Eighth Five-Year Plan

Reform of the planning system to date must first tackle the integration of the planned economy with market regulation. Toward that end, we must accomplish the following. First, draw up a good plan, particularly a good long-term plan. That will be a tangible sign that the planning mechanism is working. Moreover, it will point up a direction for the market mechanism and create room for it to maneuver. Second, draw up an industrial policy. This is an important expression of the integration between planning and the market. It brings together planning and the market, development and reform, the short-term and the long-term closely. Third, means of economic leverage, including the budget, banking, foreign exchange, and prices. They both embody the wishes of the government and indirectly influence economic activities, creating maneuvering room for market regulation. Fourth, laws and regulations. They express class interests and aspirations and lay down the respective methods of operation and scope of planning and the market. Fifth, information. Both planned regulation and market regulation will be hard to accomplish without an advanced and far-flung information feedback, transmission, and processing system. Once you do a good job here, you can integrate planning and the market successfully.

Even as we firmly adhere to the integration of the planned economy and market regulation, we must also observe five other principles. First, adjust interest relations properly and intensify reform of the planning system. Second, in the production arena, put expanded reproduction under command planning while stepping up guidance over simple reproduction. Third, in the realm of circulation, impose command planning on key materials vital to the national economy and people's livelihood and intensify planned guidance over ordinary materials. Fourth, in the realm of distribution, beef up the centralized management of the allocation of social funds. Funds already in market regulation should be under planned guidance. Fifth, in the realm of consumption, strictly curb the unchecked expansion of consumption demand and intensify the planned guidance of changes in the consumption structure.

As we steadfastly integrate the planned economy with market regulation during the Eighth Five-Year Plan, we must correspondingly make the following adjustments in the planning system.

A) Adjust as appropriate the relative importance of command planning, guidance planning, and market regulation in both production and circulation and improve planned guidance and management.

Considering that products differ in their degree of importance, supply-demand situation, the maturing of their market, the needs of key productive construction, and price system, we should increase the relative importance of guidance planning as appropriate during the Eighth Five-Year Plan. Accordingly, we may make any one of these adjustments depending on the circumstances. In the case of some key energy products where command planning has been de-emphasized or where the share of state allocation has been set too low, we should properly increase the command planned output and the share to be turned over to the state. Second, in the case of leading raw materials like steel and nonferrous metals, other than the share centrally allocated, the state should directly procure a set percentage to increase the amount under direct central control. Third, increase the product variety in some industries under command planning, such as some of the more important industrial raw materials industries. Fourth, the state should be given priority in placing orders for certain key products under guidance planning.

As we adjust the relative importance and scope of command planning, guidance planning, and market regulation as appropriate, we must also improve the management of command planning. As for guidance planning, we should review our practical experience of the past few years in earnest and continue to develop specific methods of operation. A number of localities have been experimenting with "contract ordering" and "linking trade to industry" and have scored some successes. Such methods should be continued and introduced in more and more areas. As for market control, we should concentrate on rectifying market order, and establishing and improving necessary market trading regulations. Right now we must first introduce an open marketing system for key capital goods outside the plan. Under such a system, the amount of goods, product prices, object of sales, and methods of settlement will be made public. Also, the dual-track pricing system for capital goods should be brought to an end satisfactorily and the differences between prices in the plan and prices outside reduced to effect the transition to a one-commodity-one-price system.

B) Appropriately adjust and continue to improve the planned management of fixed assets investment. Limit the scale of investment even more stringently. Improve the investment structure and better the return on investment.

The authority to examine and approve construction projects should be returned to the higher levels as appropriate. The authority to examine and approve large- and medium-sized capital construction projects above the cut-off point must continue to be returned to the central government. In addition, we should adjust

the investment ceiling in some industries in accordance with the national industrial policy. During the period of economic rectification, small-scale local projects and projects under the ceiling should in principle be examined and approved at the provincial, municipal, or regional levels or by the appropriate municipality with provincial-level economic decision-making authority. At the same time, investment decision-making authority at both the central and provincial levels should be streamlined. In principle, the authority to examine and approve investment projects should be centralized in the planning agency at the same level. At a minimum, a report should be sent to the planning agency for record purposes. Investment examination and approval should be under the overall guidance and regulation of the planning agency to avoid the confusion and waste that may result from too many agencies making investment decisions.

Further the guidance and management of all kinds of projects financed by funds raised by units themselves. Joint investment between localities and enterprises should be incorporated into the unified plan of the locality where it is located. The investment activities by parties involved in horizontal economic associations as well as the establishment of enterprises funded by enterprises of the three capital sources must meet the requirements of the national industrial policy.

C) Gradually establish and perfect a sound social income distribution management system and practices. Control the excessive growth of consumption demand effectively to ease the tension of unequal distribution.

To make the growth of consumption funds fall in line with gains in national income and productivity, we must step up the management of wage funds, improve the wage management system, and improve the examination and review system of the use of wage funds as well as the bank payment supervision system. Continue to improve the practice of pegging total wages to profitability. Tighten the control and regulation of the assorted incomes of both urban and rural residents. Improve the collection of the income tax.

D) Straighten out the relations between planning, finance, and banks. Clearly define the jurisdiction and responsibilities of planning agencies at the central and provincial levels. The planning agency is a comprehensive agency that formulates and executes the national plan and is charged with the vital mission of balancing the national economy overall. To fulfil that mission, the planning agency must be equipped with the function of coordinating the various tools of economic leverage. Therefore, in entrusting the responsibility of overall balancing to the planning agency, we should also confer upon it the authority to coordinate the various means of economic leverage and enable it to exercise them. Also, planners must take into full consideration what the Ministry of Finance and the banks can actually do. The work of the treasury and that of banks must supplement and improve planning. Given a sound division of labor

between them, the planning agency, the Ministry of Finance, and banks should take the initiative to cooperate with one another closely, synchronize their steps, and coordinate their actions, thereby forming a sound and effective macroeconomic regulatory and control system.

E) Correctly handle the relations between the central government and localities. Further clarify their respective planning jurisdictional limits. A decade of reform has notably altered the management system in financial matters, investment, the supply of materials, and foreign trade. Reform has greatly mobilized local and enterprise initiative. Be that as it may, the problems in central-local relations have never been properly solved. Financial authority, the authority to resolve matters, and economic management authority have not been divided properly. Authority, responsibilities, and interests are divorced from one another, to the grave detriment of the overall effectiveness of reform. In recent years, the practice of favoring some local interests over others has exacerbated local separatism and isolationism. A regional policy that over-differentiates has caused the localities to try to outdo one another, severely undermining macroeconomic regulation and control. As a result, clear regulations should be made soon on the responsibilities and reach of local regulation and control. First, the formulation of the local economic development strategy and major economic policies must be guided by the macroeconomic policies of the central government and must form a coherent whole with the latter. Second, tax policies must be written by the central government. Local governments have no authority to cut or waive taxes, or adjust tax rates as they please, let alone increase or decrease the number of tax types. Third, abolish credit contracting by localities. Instead, under vertical leadership, the banking system should centralize the issue of loans. As a leading organization of macroeconomic regulation and control for the near future, banks should not carry out any enterprise-like commercial activities. Fourth, reduce the scope of local price adjustment and strengthen centralized price management and control. In short, the criterion we should follow in correctly dividing the management jurisdiction between the central and local authorities is to make the central government better able to regulate and control the macroeconomy, to do things that favor the imposition of national laws, central planning, and the creation of a unitary market. At the same time, we should also try to help unleash the initiative of provinces, municipalities, and regions as well as municipalities with provincial-level economic decision-making authority. Accordingly, we may consider adopting level-by-level management vertically and sort out relations horizontally so as to achieve a reasonable sharing of authority vertically and a relative concentration of power horizontally.

F) Work hard to create a macroeconomic regulatory and control system that is consistent with the principle of

integrating the planned economy with market regulation and promoting sustained, steady, and healthy national economic development.

Concentrate on solving the problems arising from the coordinated application of various economic, legal, and administrative tools. Eliminate "reverse regulation" in macroeconomic regulation and control. Gradually establish a new macroeconomic regulatory and control system that promotes steady economic growth. Put together a multi-level regulatory and control system, that is, a power system that combines central regulation and control with local regulation and control, with emphasis on the former. There must be uniformity in fiscal policy, tax policy, monetary policy, foreign exchange policy, and market regulations and policies. Also, improve the vertical leadership system in banking, tax collection, statistics, and auditing. Increase as appropriate the amount of financial and material resources and foreign exchange under the direct control of the central government to increase its ability to regulate and control the macroeconomy and steer the economy effectively. As for the majority of routine economic activities, indirect regulation and control should be applied as much as possible to enliven the economy. Moreover, we must speed up macroeconomic legislation and formulate such basic laws as "planning law," "investment law," "price law," "banking law," "budget law," and "steady national economic growth law."

G) Continue to improve the planned management of large- and medium-sized enterprises and enterprise groups, giving full consideration to the important position of state-owned large- and medium-sized enterprises. Make sure they are compatible with command production and allocation plans and give them preferential treatment in funds, energy, raw materials, and transportation to achieve a balance between the two or at least narrow the gap as much as possible. Systematically select a number of large-scale enterprises and enterprise groups, particularly energy and raw material enterprises, that impact the entire national economy and give them decision-making authority in the national plan. Improve the method of giving economic decision-making authority to large enterprises and enterprise groups by drawing upon practical experience.

## FINANCE, BANKING

### Analysis of Causes, Options of National Debts

91CE0404A Taiyuan CAIJIN MAOYI [FINANCE AND TRADE] in Chinese No 1, 15 Jan 91 pp 18-20

[Article by Zhu Boming (2621 2672 6900) of Hangzhou University: "The Peak Period of National Debt Repayment: The Analysis of Causes and the Choices of Countermeasures"]

[Text] When China began to retire national debts in 1986, the amount of capital and interest payment was insignificant in spite of annual increases until 1990 when

it suddenly rose to 37.494 billion yuan, a 7-fold increase over 1989. The percentage of the capital and interest payment of national debts in the financial expenditure of the same year also rose from 1 percent in the previous few years to about 12 percent. This shows that China has entered into the first peak period of debt repayment since its founding. The departments concerned predict that this peak period will last till 1993. The reality makes us wonder: What has caused the peak period of debt repayment? What countermeasure shall we take?

#### 1. Cause Analysis

The peak period of debt repayment is manifested as a sharp increase in the amount of capital and interest payment in a certain year or several years as compared to that of other years. While other conditions remain constant, the amount of annual capital and interest payment is determined mainly by the amount of debts to be repayed, the duration of debt maturity period, and the level of bond interest rates. So it is possible to find a direct cause of the peak period of debt repayment in the following areas:

A. The amount of debts to be repayed continues to increase. Between 1981 and 1984 China issued 4 billion yuan of treasury bonds every year, totalling 16 billion yuan in the four year period. Of this, about 8 billion yuan needs to be paid back between 1990 and 1993. Between 1985 and 1987 the size of treasury bond issues increased to 6 billion yuan, totalling 18 billion yuan. These treasury bonds will also mature during the period of 1990-93. National debts to be paid back in capital and interest during this period also include 20 billion yuan of treasury bonds issued during the period of 1988-90, 5.5 billion yuan of major construction bonds issued in 1987, 3 billion yuan of national construction bonds and 7 billion yuan of revenue bonds issued in 1988, and 12 billion yuan of value-guaranteed government bonds issued in 1989. This shows that as the variety of national debts increases and the scale of issue expands, the amount of national debts to be retired during the period of 1990-93 also increases daily. This is an important cause of the peak period of debt repayment.

B. The maturity period of debts continues to shorten. In the past 10 years, the trend has been that the maturity period of China's treasury bonds continues to shorten. Treasury bonds issued between 1981 and 1984 have a maturity ranging from five to 10 years, and those issued between 1985 and 1987 have a maturity of three years. In addition, the maturity of major state construction bonds issued in 1987 and value-guaranteed government bonds issued in 1989 is only three years, and that of revenue and state construction bonds issued in 1988 is even shorter, only two years. As a result, the maturity period of most national debts has changed from long- and medium-term to short- and medium-term. The shortening of the maturity period has caused national debts to be retired all in the 1990-93 period, thus increasing the burden of annual capital and interest payment.

C. The interest rates of bonds continue to increase. Normally interest rate is always shorter for bonds with shorter maturities. It is just the opposite in China: the shorter the maturity of a national debt, the higher its interest rate. The interest rate of treasury bonds sold to institutions is 4 percent for the 1981-84 issue, 5 percent for the 1985 issue, and 6 percent for the 1986-88 issue. The interest rate of treasury bonds sold to individuals has increased even faster. The 1981-84 issue is 8 percent, the 1985 issue is 9 percent, the 1986-88 issue is all 10 percent, and the 1989 and 1990 issues are as high as 14 percent. In addition, major construction bonds sold to institutions are 6 percent, and those sold to individuals are as high as 10.5 percent, revenue and state construction bonds are respectively 8 and 9.5 percent. As for value-guaranteed government bonds, it is one percentage point higher than the bank interest rate on time savings deposits during the same period (the value-guaranteed subsidy rate is also taken into consideration). The continuous rising of the interest rate of national debts has increased the expenditure of interest payment of national debts. This is another reason for the peak period of debt repayment.

The concentration of the quantity of national debts and the imbalance of maturity period and interest rate are both caused by a certain economic background. So there must be deeper reasons behind them. These deeper reasons are inseparable from the mistakes in the management of national debts.

A. The choices of the model of issue and the method of retirement of national debts are inappropriate. As of today, China has employed basically two models for the issuance of national debts: one is increasing period by period; the other, year by year. Between 1981 and 1987, it basically used the former. This period was divided into first and second periods with 1984 as a dividing line. Since 1988 China has basically employed the latter model for the issuance of treasury bonds and other kinds of bonds. Neither of these two models is conducive to balancing annual capital and interest payment. This is because the former model will create a great "jump" between the two repayment periods whereas the latter model will cause the annual capital and interest payment to "snowball" during the retirement period. Corresponding to this, the method of retirement is overly unitary. All treasury bonds issued between 1981 and 1984 will be retired periodically with five installment payments in a five-year period. This method was originally conducive to balancing the annual burden of national debts. But since it was fairly complicated (it required lots to be drawn), beginning in 1985, repayment of all bonds, including treasury bonds, was changed to repayment in one lump sum at their maturity date. Under the precondition of the irrational maturity schedule of national debts, using the one-time payment method has produced the "overlapping" effect of capital and interest payment.

B. The issue of national debts has ignored the normal economic returns of subscribers. The profit level of

treasury bonds issued between 1981 and 1984 was too low. The maturity period of these bonds was five to 10 years, their interest rates were 4 percent (for group subscribers) and 8 percent (for individual subscribers)—both lower than the 4.2 percent of three-year group savings deposits and the 9 percent of eight-year individual savings deposits. Such a low profit level plus the fact that treasury bonds were apportioned to different levels in accordance with administrative divisions and the fact that they cannot be circulated, transferred, sold, nor reported as lost, have made the issue of treasury bonds unappealing. In order to save the reputation of treasury bonds, China allowed 1985 treasury bonds to be cashed at banks, but this did not help because the discount rate was too high. Under these circumstances, China was forced to raise the profit level by shortening the maturity period and increasing the interest rate. This shows that overemphasizing the goals of low cost and easy management and ignoring subscribers' interests have instead distorted the structure of the maturity period and interest rate of national debts.

C. The coordination of macroeconomic policies and measures is absent. Since 1985, due to the lack of unified management and coordination of the interest-rate level, the interest rates of bank savings deposits, social fund raising, and various bonds have been competing with one another. For instance, in 1985 the interest rate of treasury bonds sold to individual subscribers was raised to 9 percent, which was higher than that of bank savings deposits during the same period. But in the second half of 1985 the interest rate of bank savings deposits was raised to 9.6 percent, so the interest rate of treasury bonds dropped lower than that of savings deposits. In 1986, the interest rate of treasury bonds was again raised to 10 percent, slightly higher than that of savings deposits. However, since banks offered value-guaranteed savings deposits in 1987 and 1988, the interest rate of savings deposits was again higher than that of treasury bonds. So the two continue to compete with each other and the interest rates continue to rise even higher.

D. The mechanisms of self regulation and circulation of national debts are absent. The results of foreign practice show that issuing replacement debts in a timely manner is a good measure for coping with the peak period of debt repayment and reducing financial pressures. Three to four years ago some people already predicted that China was going to face the peak period of debt repayment. Had we seized the opportunity then to issue a certain amount of replacement debts, pay off some debts before maturity dates by offering a lower interest rate, and extend the maturity of some debts by offering a higher interest rate, we could have prevented this peak period of debt repayment. At least there would not have been over 30 billion yuan of "peak value." But China did not offer such services in a timely manner. It was not until 1989 that departments concerned decided to extend the maturity of treasury bonds, which were issued between 1981 and 1984 and to mature in 1989, for three more years. But this measure of compulsory extension not only could

not help ease the peak period of debt repayment but instead increased the burden of debt repayment in 1992.

## 2. Choices of Countermeasures

The peak period of national debt repayment which involves over 30 billion yuan of annual capital and interest payment and will last two to three years is undoubtedly a problem to a country whose revenue accounts for less than 25 percent of its national income and which has suffered financial deficits for 10 consecutive years. However, clearing national debts is a problem that must be solved properly because it concerns not only state credit and the reputation of national debts but also the legal interests of the broad masses of creditors. It even has a close bearing on the successful fulfillment of the task of national economic rectification and improvement. I think that in order to sail through the peak period of debt repayment, we need to start with two things:

A. Raising sinking funds. The basic way to get us through this peak period of debt repayment is to raise sinking funds. Although our current financial situation is difficult and the contradiction between revenue and expenditure is rather prominent, the entire national economy is undergoing rectification and improvement which has created good conditions for increasing the ratio of state revenue to national income and stopping the loopholes of financial leakage. In other words, it is fully possible to raise sinking funds during the readjustment of the distribution pattern of national income. At the same time we must also improve the structure of state expenditure. Although expenditures for the purpose of maintenance and development both need to increase, they should yield to a certain degree to the expenditure incurred to retire debts in the peak period of debt repayment. Based on the projection of financial growth, financial departments may design a national plan for the growth rates of various expenditures so as to guarantee the source of money to repay debts.

B. Extending the maturities of some national debts. In order to protect the reputation of government bonds and the lawful interests of creditors, the interest rate should be higher than the original rate during the extended period. This measure of increasing interest rate and extending maturity period may increase the state burden of interest payment, but it still is a wise choice under the current situation of extremely limited financial resources. To implement this measure, we may use administrative order or economic incentive. Judged by our national condition, the latter is a better choice. Because the reputation of national debts was not very good a few years ago and because the maturity period of some national debts held by institutions was already extended through compulsory means in 1989 without the offer of higher interest rates, we cannot continue to adopt such practice in the next few years. The method of refunding old debts with the issue of new debts is not compulsory and can guarantee that the interest of creditors will not be encroached upon, so it will be welcomed



by the broad masses of creditors. Of course, if we can stimulate the people's patriotism through propaganda, the effect will be even better. The refunding will not result in too much increase in interest payment. It will be even better for us to refund such categories as treasury bonds held by institutions, special bonds, and value-guaranteed government bonds.

The peak period of debt repayment can create a dilemma for the government of any country. If it fails to retire its debts due to insufficient financial resources, it will damage the credit of national debts. If it retires all debts as they mature, it will disrupt the structure of budget expenditures or worsen the contradiction between revenue and expenditure. Therefore, in the long run we must try to avoid the recurrence of the peak period of debt repayment.

A. We should ensure that the size of the annual issue of national debts is somewhat "flexible." Judged from the pattern of national debt issues in the past 10 years, the scale of the annual issue of national debts has increased gradually. This is because China's national debts are incurred essentially to finance production and construction. The main function of national debts is to satisfy the capital needs of production and construction. To ensure such a function, we must guarantee that there is a definite amount of net income from such debts every year. This demands that the size of the annual issue of national debts to be "inflexible." As a matter of fact, along with the development of the planned commodity economy, national debts should put more stress on regulating the economy in addition to raising funds. Therefore, we should not limit the function of debts to making a definite amount of net income every year. If the issue of national debts can remedy financial deficits, we need not to worry even if the amount of debt repayment is higher than the amount of debt issuance in some years. Moreover, in the future banks will no longer offer loans and credit to remedy financial deficits, we can instead rely on the issuance of national debts. Based on such an understanding, we should ensure that the annual issue of national debts has certain "flexibility," for such "flexibility" can help us avoid the peak period of debt repayment.

B. We should stress the tactics of issuing national debts. First, the determination of the profit level of national debts should not be based solely on commercial interest. In addition to publicity and encouragement, we may offer more preferential treatment regarding taxes. For instance, individuals may be allowed to deduct the amount of national debts they subscribed before paying individual income regulatory taxes. We may put an appropriate limit on the amount of money the public can contribute to social fund raisings and purchase various enterprise securities. Or we may increase the circulation and liquidity of national debts by further opening and improving the transfer market of national debts. Second, we should try to arrange the maturity schedule in a direction commensurate with the use of debt income. The duration of the maturity period of national debts

used to finance production and construction should be as close as possible to the time needed to recover the investment of the projects. When fixing the maturity period of national debts issued to remedy deficits, we must consider when the financial situation will improve. In addition, we should let subscribing organizations handle the sales to reduce the expenses incurred by the issuance of national debts.

C. We should readjust the national debt retirement policy. China should consider establishing sinking funds to retire national debts. This can balance the burdens of annual capital and interest payments and save the government from the embarrassment of having to face the dilemma during the peak period of debt repayment. After the establishment of sinking funds, we may change the method of national debt retirement from current one-time payments to market transactions, because the latter has many advantages compared to other methods. For instance, when bond prices decline, the government can purchase bonds from the market at a price lower than their face value, which can help reducing the burden of debt repayment. As far as creditors are concerned, the purchase of large numbers of bonds by the government can help stop the further decline of prices; thus, it is also beneficial to them. In addition, the interest payment of national debts should not be made along with the payment of capital in all cases. Instead, as various conditions gradually mature, we should shift as soon as possible to the track of installment payment.

#### **Construction Bank in Pudong To Issue Enterprise Bonds**

91CE0502C Beijing JINRONG SHIBAO in Chinese  
26 Mar 91 p 3

[Report by Zhang Yuan (1728 1254): "Construction Bank in Pudong To Act as Agent for Issuing Enterprise Bonds Worth 50 Million Yuan"]

[Text] The branch of the People's Construction Bank of China in Pudong, Shanghai, is actively developing the securities business in order to develop Pudong. It is expected to act as an agent for issuing 50 million yuan worth of enterprise bonds for Shanghai's Gaoqiao Chemical Company in the first half of this year. At the same time, preparations will be under way for issuing—or acting as agent for issuing—financial, local, enterprise, and other bonds.

According to estimates by departments concerned, during the Eighth Five-Year Plan, the key municipal projects for developing the new Pudong zone will require more than 40 billion yuan worth of investments. Each year nearly 400 million yuan of this amount will be raised through bond issues. For this purpose, the Pudong branch of the Construction Bank will adopt the following measures this year: It will actively coordinate with the municipal government in working to formulate a plan for land-mortgage bonds in Pudong, and work to issue



the bonds. It will help the New Pudong Zone Development Company devise a plan for investing settlement allowances in securities for the rural labor force. It will introduce 500 million yuan worth of credit funds for the new Pudong zone using the capital flow network of the Construction Bank system nationwide. It will actively explore ways of issuing bonds to other localities. It will select some trial stock-system enterprises or foreign-invested enterprises that enjoy good economic benefits, substantial financial returns, and that are competitive in the market, and act as their agent for issuing stocks valued in renminbi or foreign exchange certificates. It will design new varieties of enterprise bonds, and act as an agent for enterprises issuing bonds and short-term, fund-raising securities.

### Construction Bank To Issue Bonds

91CE0502B Beijing JINRONG SHIBAO in Chinese  
26 Mar 91 p 3

[Report by Jian Xuan (1696 1357): "Construction Bank To Issue Large Volume of Bonds This Year"]

[Text] According to a department concerned in the headquarters of the People's Construction Bank of China, the bank is expected to issue—or act as an agent for issuing—state bonds, financial bonds, and enterprise bonds worth a total of more than 10 billion yuan. These bonds are estimated to gradually enter the market after April.

According to statistics, from 1987 to the end of 1990, the Construction Bank issued—or acted as an agent for issuing—state, local, and enterprise bonds worth a total of more than 40 billion yuan. Of this, 5 billion yuan worth of financial bonds were supplied, using a special credit mode, to capital-construction and technological-renovation projects that were within the state plan, were urgently needed by society, and that had good economic returns. Nearly 20 billion yuan worth of various construction bonds were used in the construction of a group of key state projects, such as those in the areas of energy, transportation, raw materials, and electricity.

While developing the securities issues business, the Construction Bank has also emphasized developing and perfecting the securities exchange business. By the end of 1990, the Construction Bank had established nearly 300 sites for securities exchanges, handling securities exchanges worth a cumulative total of nearly 2 billion yuan.

### China Merchants Bank To Set Up Branch in Shanghai

OW0805164491 Beijing XINHUA in English  
1541 GMT 8 May 91

[Text] Shanghai, May 8 (XINHUA)—The People's Bank of China has given its approval for the China Merchants Bank to establish a branch office in Shanghai.

This marks the first time that a local bank from another province or city has set up a branch office in Shanghai.

As the first enterprise-funded joint stock bank in China, the China Merchants Bank was established in Shenzhen in 1987.

At present, the Hong Kong based China Merchants Group is the bank's holding company. The China Ocean Shipping Corporation is one of its participating companies.

The China Merchants Bank is also the only bank on the Chinese mainland that has been approved to handle offshore financial business.

To date, the bank has established business relations with 47 banks in 15 countries and regions throughout the world.

The 30-story branch office will be built in the Lujiazui Trade and Financial Development District of the Pudong New Area.

## INDUSTRY

### Export of Light Industrial Products in February

HK0204102491 Beijing CEI Database in English  
1 Apr 91

[Text] Beijing (CEI)—Following is a list showing China's export of light industrial products in Feb. 1991, released by the General Administration of Customs:

Item	Unit	Feb. 1991	Feb. 1990
Paper and paperboard	ton	12,187	14,741
Cement	ton	354,579	127,776
Plate glass	10,000 sqm [square meters]	286	107
Glassware	10,000 US\$	618	274
Household pottery	10,000 US\$	2,696	1,886
Pearl	10,000 US\$	226	136
Wrist watch	set	2,780,000	2,890,000
TV set	set	261,017	287,978
Color	set	100,854	116,167
Mono-chrome	set	160,163	138,107
Recorder	set	1,782,983	1,059,602
Electric fan	set	1,526,667	1,136,314
Bicycle	set	231,493	88,015
Garment suit/pieces	in 10,000	20,047	15,820
Leather shoes	pairs	5,560,000	2,730,000
Rubber soled cloth shoes	10,000 pairs	2,975	2,597
Toy	10,000 US\$	4,270	3,003
Export goods	10,000 US\$	68,135	51,663

Processed and assembled with imported materials (excluding those processed on contracts)

### 1990 Industry Indices for Coastal Cities

HK1004122091 Beijing CEI Database in English  
10 Apr 91

[Text] Beijing (CEI)—Following is a table showing the industry indexes of some coastal cities in 1990 released by China's State Statistical Bureau.

City	Unit: 10,000 Yuan		
	Based on Current Price		
	Total Output Value	Heavy Ind output Value	Light Ind Output Value
Total	43,708,760	19,012,183	24,696,577
Coastal open cities	39,292,627	17,917,343	21,375,284
Dalian	2,418,370	1,556,531	861,839
Qinhuangdao	323,749	189,219	134,530
Tianjin	5,397,306	2,745,114	2,652,192
Yantai	1,572,161	736,365	835,796
Weihai	908,884	360,822	548,062
Qingdao	2,507,253	1,006,696	1,500,557
Lianyungang	436,771	174,081	262,690
Nantong	2,027,632	671,239	1,356,393
Shanghai	15,047,100	7,320,700	7,726,400
Ningbo	2,054,106	823,021	1,231,085
Wenzhou	655,167	256,785	398,382
Fuzhou	1,083,988	434,176	649,812
Guangzhou	4,081,537	1,462,927	2,618,610
Zhanjiang	663,964	157,797	506,167
Beihai	114,639	21,870	92,769
SEZ Cities	4,010,075	970,430	3,039,645
Shenzhen	1,899,499	481,757	1,417,742
Zhuhai	504,052	92,792	411,260
Shantou	857,050	189,725	667,325
Xiamen	749,474	206,156	543,318
Hainan Province	406,058	124,410	281,648

Note: SEZ refers to Special Economic Zones.

### Output of Chemicals Jan-Mar 1991 Reported

HK2204094091 Beijing CEI Database in English  
22 Apr 91

[Text] Beijing (CEI)—Following is a list of the output of main chemical products in the first quarter of 1991, released by the China State Statistical Bureau:

Item	Unit	1-3/91	1-3/90
Chemical fiber	10,000t	44.31	39.77
Sulphuric acid	10,000t	295.86	254.43
Dense nitric acid	10,000t	7.86	7.38

Soda ash	10,000t	94.80	78.68
Caustic soda	10,000t	83.62	85.05
Ethylene	10,000t	45.07	38.38
Calcium chloride	10,000t	52.45	50.82
Pure benzene	10,000t	19.42	14.30
Synthetic ammonia	10,000t	528.62	515.53
Fertilizer	10,000t	470.40	452.12
of: Nitrogen	10,000t	365.43	362.05
Phosphorous	10,000t	104.61	89.29
Potash	10,000t	0.26	0.61
Chemical pesticide	10,000t	6.47	5.80
Paint	10,000t	20.28	16.14
Dyestuff	10,000t	3.46	3.06
Pharmaceuticals	10,000t	4.58	3.77
Chinese patent medicines	10,000t	6.09	4.80
Tyre	10,000	824.93	669.02
Synthetic rubber	10,000t	9.04	7.61
Film	10,000m	3131	3481
Color film	10,000m	2954	3383
Plastics	10,000t	64.51	56.11

Notes: m—meters, t—tons

### Electronic Products Sell Well at Export Commodities Fair

HK2704054991 Beijing CHINA DAILY in English  
27 Apr 91 p 2

[By staff reporter Li Zhuoyan]

[Text] Guangzhou—Sales of Chinese electronic products are booming at the Chinese Export Commodities Fair.

Wu Tongzhu, deputy head of the Trading Delegation for Electronics, said that up to Thursday transactions had totalled \$211 million, over \$1 million more than on the same day of last spring's event.

This had taken them to seventh place, in terms of business done, among the 19 trading delegations at the fair, Wu said.

Color and black-and-white TV sets and tape recorders were the best sellers: contracts for each exceeded \$10 million.

"But we have sold fewer black-and-white TV sets than we expected," Wu said.

Electronic organs, toys and fans, refrigerators, and washing machines were selling better than last year, each attracting business worth at least \$1 million.

Although the emphasis was now on exporting more finished products and fewer components, at this fair, more components had been sold than last year.

The main reason for this was that, under the new trade system, Chinese exporters can no longer get State subsidies for losses. That made them more eager to sell components, whose export costs were much lower than those of the finished products, Wu explained.

Buyers came from about 40 countries and regions. Hong Kong, Macao, the United States, Japan, Singapore, Pakistan, the United Arab Emirates and the Netherlands were the biggest, he said.

At this fair electronics products traders have also secured contracts with Poland, attending the fair with other Eastern European countries. It was the first time they had carried out spot transactions with Chinese exporters.

### Shanghai Upgrades Machine Tools Industry

OW0405030391 Beijing XINHUA in English  
0223 GMT 4 May 91

[Text] Shanghai, May 4 (XINHUA)—A program using World Bank loans to carry out technical transformation of the machine tools industry in Shanghai is proceeding smoothly.

The program involves 16 plants and a research institute. So far, over 30 projects have been completed, adding nearly 700 sets of advanced equipment to the old machine tools enterprises in the city.

Shanghai is one of China's major machine tool producers and exporters. In order to update the city's machine tools industry, the Chinese Government signed an agreement with the World Bank in October 1987. According to the agreement, the Shanghai Machine Tools Corporation borrowed 64 million U.S. dollars for technical transformation.

Over the past three years the corporation has developed over 50 new and hi-tech products, including a high-precision slideway grinder and a digital-control multi-mold press.

As a result, Shanghai's exports of machine tools reached 20 million U.S. dollars-worth in 1990, triple the figure for 1987. Meanwhile, 25 percent of the exports in 1990 were high-grade products, as against a mere 10 percent in 1987.

The whole program will be completed in 1992. By that time, the corporation will have more than 75 varieties of products, 58 of which will be newly developed digital-control, precision and high-efficiency automatic machine tools. The corporation's annual export value will grow to 23 million U.S. dollars, as against 6.53 million U.S. dollars in 1987.

## CONSTRUCTION

### Construction Projects Completed in Jan-Mar 1991

HK1305092091 Beijing CEI Database in English  
13 May 91

[Text] Beijing (CEI)—Following is a list showing capital construction projects completed by state-owned units in Jan.-Mar. 1991, released by the China State Statistical Bureau:

	Unit	1-3/91	1-3/90
Total	100 million yuan	149.42	136.59
Investment Constructed	item	17385	16384
Completed	item	493	330
Area constructed	10,000 sm.	15753.86	9042.1
Housing	10,000 sm.	3864.03	2768.9
Area completed	10,000 sm.	273.77	235.98
Housing	10,000 sm.	94.42	80.88

## FOREIGN TRADE, INVESTMENT

### Price Issues Confronting Sino-Soviet Border Trade

91CE0472A Beijing JIAGE LILUN YU SHIJIAN  
[PRICE: THEORY AND PRACTICE] in Chinese No 2,  
Feb 91 pp 48-49

[By Tian Xiudong (3944 4423 0392)]

[Text] Since China and the Soviet Union resumed border trade relations in 1982, the situation has developed rapidly. One after another, the provinces and regions of Heilongjiang, Jilin, Liaoning, and Inner Mongolia, as well as Harbin City, have signed a number of economic and technical cooperation contracts and a large number of statements of intent with the border areas of the Soviet Far East and Siberia and later with the Soviet interior.

Originally, border trade was confined within a certain distance of the border, but it has now broken out of these limits. For example, Heihe Prefecture border trade now includes nine Soviet republics, extending in the Soviet Union to Europe and in China to more than 20 provinces, municipalities, and regions.

However, there are still, in the development of Sino-Soviet border trade, certain pricing problems urgently in need of settlement.

1. A price control organization has not been perfected, and pricing of imports and exports is chaotic. The majority of areas engaged in border trade business have neither specialized organizations nor specialized cadres to manage the prices of imports and exports. Some border trade enterprises have been newly established in

the past several years. Most do not have special organizations to control prices. Generally, one pricing employee from the financial department works full-time or part-time on the specifics. The system of management is quite incomplete. They have not formulated control lists and methods of control for prices and division of labor with respect to imports and exports. Prices and fees collected for border imports and exports are, as a result, in chaos.

2. Foreign buying and selling prices of import and export goods are not in line with each other. Because of this lack of agreement, we are inadvertently losing money. China and the Soviet Union both have many companies engaged in border trade. Because each is eager to make a deal for what it needs, there is a serious tendency to underprice exports and pay too much for imports. This gives the other party the advantage. It not only harms state interests, it affects enterprise efficiency. For example, if a border trade company imports wire rods from the port of Heihe, the foreign firm's price is higher than the fixed price in Heilongjiang Province. Another Heilongjiang border trade company contracted with the Soviet Union in 1989 to do engineering work. The Soviets used railroad track to pay for it, with each ton priced at 215 Swiss francs. Because a border trade company in a neighboring province was unable to agree with the Heilongjiang border trade company on price, in 1990, the Soviets proposed raising their price 50 Swiss francs per ton.

3. Prices negotiated abroad for import and export goods do not coincide with domestic purchase prices. When border trade prices are not subjected to centralized control, import and export prices negotiated abroad are controlled by border trade departments, whereas prices of import and export goods purchased domestically are controlled by pricing departments. The result has been that, in the last several years, the price of export goods purchased domestically has risen extensively, while the selling price abroad has remained relatively stable. This has meant that the greater the amount of export goods, the greater is the loss to enterprises. The foreign selling prices of import goods are affected by Soviet domestic price rises and are constantly on the increase. However, China's domestic selling prices are under relatively strict control, thereby affecting the profits of border trade enterprises.

4. The information embargo between regions and between enterprises, price secrecy, mutual disparagement, and undercutting one another all give advantage to the Soviet side. Some border trade enterprises, competing for the source of goods, fight for customers, usurp markets, and adopt certain unorthodox methods of competition, such as high priced purchases, low priced sales, and undercutting and disparaging each other, thereby allowing the Soviet side to reap the benefits.

5. There many deficiencies in the two prices for domestic and foreign import goods. Heilongjiang imposes two prices, domestic and foreign, on import goods. This

creates unwillingness on the part of border trade enterprises to sell within the province certain imported capital goods that are in short supply. For example, take fertilizer imported from the Soviet Union. The price of each ton of urea sold outside the province is more than 200 yuan higher than the fixed selling price within the province. This results in vast amounts of imported fertilizer flowing out of the province and affects inter-provincial relations.

Following are a few suggestions.

1. We should strengthen border trade price control and guidance.

Border trade complements international trade. However, as time goes by, we cannot continue to limit border trade resources and markets to the narrow confines of the border. We must logically define the status of border trade and do a good job of handling the division of labor between border trade and ordinary international trade with respect to the varieties of import and export goods.

The purpose of border trade price control should be to help the market prosper, stabilize prices, and promote economic growth. Because border trade is transacted on the basis of unauthorized contracts, sole responsibility for profit and loss, and self-administered balances, most of it falls in the category of bartering, with prices being determined by barter agreements between two parties. Based on this characteristic, we should, when formulating and controlling border trade prices, take into account the benefit to the situation as a whole and emphasize overall interests.

2. We should set up an organization to control and coordinate border trade enterprise pricing and operations.

If we are to resolve the present problems of having multiple foreign contacts, contending for customers, and mutual disparagement and undercutting, we have to strengthen macroeconomic regulation and control and planned management of border trade. First, we must set up an organization to control and coordinate operational activities of border trade enterprises (including price coordination work). Second, this organization must do a good job of surveying and researching the Soviet market, including its domestic market, to facilitate a rational arrangement vis-a-vis the source of goods. Third, we should, on a regular basis, train foreign trade cadres, improving their ideology and operational skills, to meet the needs of border trade work. Finally, a coordinating organization should promptly collect pertinent foreign and domestic data and provide it to border trade enterprises for development of their operational activities.

At the same time, in imposing unified leadership on border trade prices nationwide, different levels should have different levels of responsibility. General and specific policies on border trade prices should be unified macroeconomically. On this basis, local government and pricing departments should be, in accordance with the

particular characteristics of border trade, given specific jurisdiction to maintain within logical limits regional price differences and qualitative price differences of goods.

### 3. We should impose price discrimination policies.

Border trade is not the same as ordinary international trade. It cannot use foreign exchange or use oversupplied domestic goods in exchange for goods in short supply to alleviate a domestic disparity between supply and demand. We, therefore, have to impose a policy of inclination with respect to prices, for example, by permitting imported capital goods (fertilizer, steel products, and lumber) not assigned by the local plan that was bought at a high price to be sold on the outside at a high price.

### 4. We should impose classification control on separate varieties.

We could, on the premise that it would benefit the domestic market and expand imports, impose classification control on separate varieties. If we are to prevent border trade enterprises from competing with each other by paying too much for imports and underpricing exports, we have to impose fixed price and base price controls on negotiated sales prices. With respect to important large-volume commodities, there should be uniform limitations on the highest and lowest negotiated sales prices, and with respect to small-volume commodities, we should furnish border trade enterprises with reference base prices, thereby giving them something of a basis to go on. Price control of imported goods sold domestically should be imposed both leniently and strictly according to the different goods. It should be applied with discrimination to avoid any direct adverse effects on the domestic market.

### 5. We should establish the necessary legal adjudicating organization.

Now and then, trade disagreements and disputes occur between China and the Soviet Union. However, our side lacks appropriate measures for arbitration and legal intervention. When problems arise, we are at a loss what to do. In the Soviet Union, the industrial and commercial associations arbitrate trade disputes. China should also set up an arbitration organization and, at the same time, formulate appropriate rules and provisions to provide a legal basis for handling disputes.

### 6. We should strengthen the training of border trade pricing cadres.

In the wake of reform and opening to the outside world and increasing growth in Sino-Soviet trade, we must strengthen our training of border trade pricing cadres and improve their ideological, political, and operational skills to meet the needs of Soviet border trade work.

## Foreign-invested Enterprise Management Problems Addressed

91CE0466A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 2, 28 Feb 91 pp 8-13]

[Article by Zheng Baoyin (6774 1405 6892) and Han Qi (7281 3825): "Management Problems in Foreign-invested Enterprises and Their Solutions"]

[Text] Foreign traders have been investing in China for more than 10 years. Today, foreign-invested enterprises have become an integral part of the building of the country's national economy, playing a major role in economic development during the country's preliminary stage of socialism. Numerous successful three kinds of partially or wholly foreign-owned enterprises have preliminarily shaped strict and painstaking, forward-looking, and distinctive management styles. These serve not only as experience for the reference of numerous three kinds of partially or wholly foreign-owned enterprises, but also are bound to advance improvement in the modernization of management levels in all industrial enterprises in the country.

Nevertheless, although the form of operation of foreign-invested enterprises in the country is not the same at the present time, all are "entrepreneurial entities" under two different economic systems and two socio-cultural systems. In addition, since the country's economic operating mechanism is still in a period of exploration, formation, and perfection in which the new and old systems rub against and collide with each other, this will doubtlessly occasion new difficulties and new problems for foreign-invested enterprises.

## 1. Problems in the Internal Management of Foreign-invested Enterprises

1. On the Chinese side "property rights are nominal," and responsibility for state-owned assets is ambiguous. Enterprises frequently resort to administrative subordination relationships to cover up the relationship between asset owners and enterprise operators; consequently Chinese operators are prone to disregard enterprise economic returns, and the social responsibility that operators should bear.

In Sino-foreign jointly operated and cooperatively operated enterprises, the true Chinese investor in equity is the state. No matter the principal making the input, and no matter whether it is money, land, plant buildings, or equipment that is being inputted, all the property belongs to the state. The chairman of the board of directors and the Chinese directors are virtually all appointees of the Chinese investing unit concerned. They act as representatives of Chinese assets with responsibility for supervising the enterprises' administration and operation. Nevertheless, since the Chinese directors are only representatives for "state assets," in addition to which contracts do not explicitly provide for the rights and interests of the Chinese directors for state

assets, or the responsibilities they are to carry, etc., this nominalization of ownership rights for state assets creates a situation of ambiguous responsibility for state assets.

The "nominal property rights" in Sino-Foreign joint ventures occasions very many problems as follows:

(1) It adversely affects the degree of concern for state assets of the Chinese directors. We found in a survey that the Chinese directors in some enterprises rarely exercised their supervisory functions, and they were indifferent about how managerial personnel managed state assets, as well as the choice of managers, the investment of capital, and management results, etc. A situation of "directors doing no directing" was fairly universal. This was also one of the reasons for general managers exceeding their authority and arrogating authority to themselves.

(2) Chinese administrative personnel bear no responsibility for operating risks. They are not responsible for enterprise bankruptcy or closure. Since the Chinese equity is in the form of state assets, the Chinese administrators and managers not being the true owners of the state assets, they cannot do item-by-item calculations and careful budgeting, or item-by-item management to make a profit. Sometimes they even sacrifice the interests of the enterprise and the states interests for the benefit of some individual foreign party. Even though an enterprises returns might not be good, the general managers are not concerned. As one corporation manager said: "The state cannot see an enterprise such as ours close its doors." Competitive pressures of bankruptcies and closures have yet to apply entirely to joint enterprises.

2. The incomplete development of labor markets and the deleterious effects of traditional ideas limit the decision-making authority of enterprise working personnel, thereby impairing strict enterprise management.

Foreign-invested enterprises have undertaken bold and beneficial reforms in the management of working personnel from which they have gained successful experience. However, because of the deleterious effects of traditional ideas, particularly the limitations of enterprises' external environment, the autonomy of foreign-invested enterprises in the use of personnel has not been completely realized. This is manifested specifically in the following ways: (1) Difficulties in the movement of technical and managerial personnel. Since "departmental ownership" and "unit ownership" actually exists in the management of the work force in China and cannot be completely broken, skills markets and labor markets have not truly taken shape. Thus, sometimes even though three kinds of partially or wholly foreign-owned enterprises are looking for suitable technical and managerial personnel, it is frequently difficult to hire such personnel because departments or units will not release them, or because of household registration problems or other reasons. (2) The surplus personnel in "one-plant,

two-systems" enterprises are difficult to digest. Some "one-plant, two-systems" joint venture enterprises frequently contract some of the staff members and workers in old enterprises, themselves digesting them. Those who cannot be placed frequently become burdens on joint venture enterprises. The Tianjin Tianyong Woolen Knit Goods Corporation was founded by the former Tianjin Woolen Sweater plant in cooperation with the Hong Kong Company. After becoming a joint venture, the old enterprises had 1,000 redundant personnel. After thinking of every possible way of solving the problem, 500 who cannot be digested still remain. (3) Different wage systems limit the flow of personnel. Since different wage systems, wage grades, and labor insurance systems are used between one partially or wholly foreign-owned enterprise and another, and between partially or wholly foreign-owned enterprises and domestic enterprises, there are many worries about the mobility of personnel. (4) There is a certain amount of interference in enterprises' discharge and retirement of staff members and workers. Some three kinds of partially or wholly foreign-owned enterprises report that when they discharge, retire, or fire staff members and workers in accordance with pertinent regulations, the staff members and workers who are discharged, retired, or fired frequently seek arbitration by labor units, and some labor units frequently apply to three kinds of partially or wholly foreign-owned enterprises the methods used in state-owned enterprises, placing blame on them. As a result, enterprises can scarcely be strictly managed in accordance with rules and regulations.

3. The staff member and worker insurance system has yet to be put on a sound footing. Policies are not uniform. Consequently, enterprise staff members and workers have nagging worries.

As the number of personnel employed in foreign-invested enterprises increases, the labor insurance problem becomes increasingly prominent. This shows up specifically in the following ways: (1) Lack of uniform standards for the issuance of staff members and worker retirement benefits. Regulations that jurisdictions have promulgated pertaining to foreign-invested enterprise issuance of staff member and worker retirement benefits show the existence of three main standards. One is issuance of benefits on the basis of years of service in the foreign-invested enterprises; another is issuance on the basis of the wages the worker received; and the third is issuance calculated on the previous wage of record. (2) Lack of uniform standards for tendering insurance funds. The standards each jurisdiction sets for the tendering of insurance funds is not uniform. In some cases it is 30 percent of actual wage receipts, and in others it is 20 percent, etc. Enterprises in some places have not yet done anything about this task; and some places have no specific unit responsible for collecting and managing insurance funds. There is also a divergence between insurance companies and labor units on this matter. According to regulations, insurance companies should be responsible for this task, but labor personnel units

believe that labor units should administer this task as a matter of planning as a whole for the development of society. Most of the staff members and workers in foreign-invested enterprises today are young people, so this problem is still not pressing. As the age of the staff member and worker corps increases, this problem will become urgent, requiring clarification and perfection through regulations and policies. (3) Staff member and work labor protection provisions are unclear and unenforced. Staff members and workers in three kinds of partially or wholly foreign-owned enterprises likewise enjoy labor protection rights, but some joint venture enterprises have not spelled out labor safety provisions when signing contracts; some enterprises began producing while lacking labor protection requirements; and in order to make more money, some wholly foreign owned enterprises instituted unlimited overtime without regard for staff members' physical and mental health. For example, a certain pleasure-boat plant had a galvanized iron shop completely without any facilities to protect against dust and toxicity. Silicon dust and toxic substances could fly about at will. At work stations using benzene and toluene, there was a 47.6 percent concentration of silicon dust, much more than the maximum permissible limits set by national regulations. As a result, many workers contracted silicosis. Nevertheless, the foreign trades not only did not agree to take preventive measures, but also did not agree to issue workers preventive equipment and health care foods for the reason that agreements and contracts contained no such provisions.

4. The duplicatory channels for the supply of means of production and the two-track price system increase enterprises' production cost burdens and make them difficult to control.

One problem strongly reported in foreign-invested enterprises is the supply of raw and processed materials, water, electricity, coal, and gas. According to pertinent provisions of the "joint venture code," the state must provide support and guarantee means of production used in production-type enterprises, but, in fact, these policies are not honored in some places. State plan departments have largely failed to include in the plan those portions that three kinds of partially or wholly foreign-owned enterprises need; enterprises can only obtain what they need through channels outside plan. In addition, means of production markets have not yet truly taken shape, so it is necessary to depend on personal connections to get what is needed; thus, it is very difficult to standardize administration. In addition, there is a considerable gap between prices of means of production inside plan and outside plan (for example, the plan price of zinc plating stock is 1,600 yuan per ton, but the domestic market price is 6,000 yuan per ton), thereby greatly increasing enterprise costs.

5. The foreign partner in some enterprises use transfer prices and such tactics, which swallow up joint venture enterprise profits, evade taxes, and damage the country's interests.

In foreign-invested enterprises, notably some sole proprietorship enterprises, the foreign partner uses control over the enterprise's supply and marketing authority, as well as the Chinese partner's lack of familiarity with international market conditions, and the lack of procurement and marketing channels to manipulate prices and fee collection standards. They use methods such as high priced imports and low priced exports, and not including taxes in the calculated price, which swallow the profits of joint venture enterprises and evade tax levies. The main ways in which foreign traders transfer prices are as follows: (1) High priced imports and low priced exports. Prices of machinery, raw and processed materials, parts, and industrial property rights that foreign traders supply joint venture enterprises are higher than the international market price, but prices of joint venture enterprise products that the foreign traders sell or contract to sell are vastly lower than international market prices. Foreign traders frequently use one export for every import and one low price for each high price to transfer industrial profits to commercial middlemen, transferring to their parent corporation or subsidiary abroad profits that the joint venture enterprise should receive. Thus, joint venture enterprises show losses while foreign traders make profits. A case in point is the Shenzhen Jingfeng Electronics Plant's products, which were formerly contracted for sale to a Hong Kong partner. The Hong Kong partner purposely reported a low sale price. As a result, costs accounted for 94 percent of the products retail sale price, the enterprise thereby incurring losses of more than 20,000 yuan in 1988. However, when the Hong Kong partner sold the same products in international markets, the actual price was 30 percent higher than the reported price for a profit of more than 3 million yuan. Another example was a certain joint venture in Shanghai whose contract stipulated that should the enterprise incur losses for three years in a row after opening, the foreign partner could withdraw from the enterprise. However, after four years of losses, the foreign partner not only did not withdraw, but rather increased his investment because he used "buying high and selling low" to transfer profits. This is the case in numerous three kinds of partially or wholly foreign-owned enterprises, which seriously hurts the national interest. (2) Use of taxes not included in the calculated price to evade taxes. When selling products they have produced inside China, some wholly foreign owned enterprises make customs duties on imported raw and processed materials, and uniform industrial and commercial taxes the buyer's responsibility for payment. Then the products are sold at a "low price" that does not include customs duties and the uniform industrial and commercial tax thereby swallowing up the benefit to the country.

## 2. Problems in External Control of Foreign-invested Enterprises

1. Differences of opinion exist about "why it is necessary to operate foreign-invested enterprises." These differences directly impair management effectiveness,

resulting in numerous provinces, municipalities, and autonomous regions in the country competing with each other to attract direct foreign investment and undue pursuit of speedy development.

China has operated foreign-invested enterprises for more than 10 years, but to date no consensus has been obtained on the question of "why it is necessary to operate foreign-invested enterprises." There is by no means a unanimity of views on questions such as "how to evaluate the position and role of foreign-invested enterprises in the building of the country's economy," or "is operating foreign-invested enterprises patriotism or national betrayal." Quite a few people feel that foreigners take away all the benefits from running foreign-invested enterprises, so it is a zero sum game. This difference in view is one issue on which both foreign-invested enterprises and working departments have extremely strong feelings. These feelings are concretely expressed in problems in three regards as follows: (2) Managerial personnel and operating personnel concerned in some leading government departments and composite departments do not smooth the way for foreign-invested firms. Instead they deliberately make things difficult, stall, and put stumbling blocks in the way. Foreign-invested enterprises have very strong feelings about the attitude and the work efficiency of the aforesaid departments. "It is difficult to get in to see them; they are not pleasant to look at; and getting anything done is difficult." This is a chronic ailment that has not yielded to long-term treatment. Clearly, this "feudal government office work style" is more than just a system problem. To a very large degree it has to do with the difference in opinion toward foreign-invested enterprises of those concerned. The foreign general manager of a certain electronics corporation in Tianjin said that a certain department head in the Tianjin Municipal Economic Relations and Trade Commission said the following to a foreign trader who had earlier appealed enterprise difficulties and asked for help in solving problems: "Who asked you to invest in China!" This made the foreign trader furious and had a very bad effect. Unless this problem is solved, the policy of opening to the outside world and providing preferential treatment will not work no matter how good it is. (2) As a result of the overheating in economic development of the past several years, many provinces, municipalities, and autonomous regions have competed with each other to attract direct foreign trader investment, unduly pursuing speed in development. We operate foreign-invested enterprises for the purpose of transforming the countries existing enterprises, to promote the development of science and technology, and to improve both administration and management in and economic returns from enterprises in order to increase the country's overall economic strength. But when some places operate foreign-invested enterprises, their guiding thought tends to be the more three kinds of partially or wholly foreign-owned enterprises the better, and the more foreign capital used the better. They unduly emphasize size and speed of development; they vie with

each other; and they rush headlong into things. They give too little consideration to local resources, renminbi counterpart funds, basic project facilities, and markets for products. Instead, they focus on one matter at a time in a blind rush to get started. China's speed of growth in direct foreign investment has averaged more than 40 percent since 1984, much more than development of the country's national economy can support. Take the previous stage of Dalian's economic development during which control over first phase work such as feasibility studies and examination and approval of foreign-invested enterprises was too lax. The floodgates were opened too wide thereby causing very great difficulties for later stage control of enterprises. (3) The attraction of direct foreign investment lacks scientific industrial planning; due consideration is not given and passivity exists; the thrust of investment is neither scientific nor rational; and it is not in keeping with the need to readjust the structure and optimize the country's industry. During the 10 year period 1979-1988, the \$11.4 billion in direct foreign investment that China attracted for use in primary and secondary industries amounted to 45 percent of total foreign investment. The \$14 billion used for tertiary industries accounted for the other 55 percent. However, a lot of foreign investment went into nonproductive enterprises such as guest houses, hotels and tourism, and recreational facilities. During the survey, we personally saw that very many three kinds of partially or wholly foreign-owned enterprises were very small in size, most of the plants having 100-odd staff members and workers, a number far short of the critical point for the economies of size. Moreover, foreign investment was concentrated in light textile, clothing, food, and pharmaceutical industries.

2. Unscientific, unsound, and unintegrated policies and regulations regarding direct foreign investment result in clashes with laws and regulations creating difficulties in management work.

Laws and regulations having to do with foreign nationals are part of an integrated system related to and influenced by all domestic laws and regulations. Implementation of the basic law requires attendant implementation of detailed rules and regulation and meshing with specific laws and regulations. Otherwise, every department may be at a loss what to do in exercising control over foreign-invested enterprises for lack of systematic criteria. The main problems in this regard are as follows: (1) Too great a delay in the implementation of detailed rules and regulations to complement the basic law, which adversely affected the completeness of the law. The Chinese government promulgated the "Sino-Foreign Joint Venture Administration Code," the "Sino-Foreign Cooperation Administrative Code," and the "Foreign-Invested Enterprise Code" to form a basic law for the operation of foreign-invested enterprises. Today, however, only the single "Regulations for Implementing the Sino-Foreign Joint Venture Enterprise Code" has been promulgated. Regulations for implementing the other two laws have not yet appeared. Foreign exchange units



and customs units report the following: Foreign exchange control is exercised largely through document control; laws in finished form are lacking. Although the customs currently has more than 20 laws and regulations, many of the regulations emphasize only principles, which makes enforcement very difficult. An example is follow-up control of the basis for the number of personal motor vehicles that foreign-invested enterprises may import, and what raw materials they may import duty free. This is bound to cause lack of standardization of control. A case in point is the Tianjin Tianyong Wool Knit Goods Corporation's imports of acrylic fiber on which the tariff rate was 6 percent in 1989, and raised to 25 percent in 1990. During the same year, however, state-owned foreign trade corporations imported the same commodity with a customs duty of only 6 percent. When the Tianjin Plant made inquiries to the customs, the answer was that the customs levies different duties on the basis of a name list of enterprises handed down from higher authority. The enterprise was very incredulous. (2) Legislation is not completely perfect and rational. A substantial number of loopholes exist. The NPC Standing Committee decision on revision of the "Chinese People's Republic Sino-Foreign Joint Venture Enterprise Income Tax Code" provides as follows: "Joint venture enterprises that incur an annual loss may withhold a corresponding amount from the following year's income to make up for it. Should the following year's income be insufficient to make up for it, it may withhold income from succeeding years to make up for it, the maximum length of time not to exceed five years." The preference that these regulations provide foreign-invested enterprises is readily apparent. Its purpose is to share part of the risk of foreign-invested enterprises to encourage foreign businessmen to invest in China. However, many foreign businessmen use such provisions to transfer pricing and to juggle the books so that the ledgers always show a loss in order to evade taxation. Such a situation exists to different degrees in Shanghai, Tianjin, Dalian, Beijing, and Guangdong. Take the Shenzhen Special Economic Zone [SEZ] as an example. Here the three kinds of partially or wholly foreign-owned enterprises account for 64.03 percent of the SEZ's output value, and 61.16 percent of its industrial output value; however, in 1988 three kinds of partially or wholly foreign-owned enterprises paid only 51.46 million yuan in enterprise income taxes, less than one-half the amount that domestically funded enterprises paid. Foreign partners in many losing enterprises not only do not withdraw their funds, but rather continue to invest. Such irrational behavior itself provides a footnote to tax evasion.

### 3. Suggested Remedies for Improving Management of Foreign-Invested Enterprises

We make the following recommendations in principle:

1. Clarify the responsibility for equity of the Chinese directors; do more to train the Chinese directors; truly put into effect a system for employing high ranking managerial personnel; and make a transition to a stock share limited responsibility system.

Chinese directors should be openly hired from within principal Chinese departments. Contracts must clearly state that directors represent the interests of state-owned assets, and spell out all the responsibilities they must bear including necessary criminal law responsibility. The chairman of the board of directors must be elected from among the whole body of directors to represent the overall rights and interests of joint venture enterprises. Every means should be used to improve the training of the Chinese directors to enable them to understand pertinent policies and laws, supervisory functions, their own rights and interests, and risk responsibility. General managers must institute genuine social hiring systems and be entirely responsible to the board of directors. This means setting up a leadership apparatus in enterprises to increase pressure on directors and managers to be responsible, making them more concerned about administration and management, and avoid the abuses that result from departments in charge appointing directors and managers.

While changing the way in which the leadership apparatus in enterprises is set up, efforts must be made to create conditions for a gradual change away from the equity percentage limited liability system form of enterprise organization that simulates the stock share system to limited liability corporations in keeping with international practice. Such a form of enterprise organization is much more flexible. It can open avenues for finance capital and moderate the capital shortage situation; and it can also add dynamism to the correlation among responsibilities, authority, and benefits in enterprises, counteract the setting up of agencies in enterprises, and eliminate the situation of no one being responsible for state-owned assets.

2. Dovetail the two different wage systems, spelling out the role of arbitration in the labor sector.

So long as the social support system and labor markets are not well developed, transitional measures will have to be taken in providing enterprises autonomy in how they use personnel. First, the methods used in state-owned enterprises for raising the wages of permanent staff members and workers may be used as a guide for providing authority to raise the wage of record of staff members and workers in foreign-invested enterprises, the wage of record of staff members and workers in foreign-invested enterprises, thereby becoming linked to the wages of staff members and workers in state-owned enterprises. Dovetailing of the two wage systems can set the stage for the movement of staff members and workers. Second is clarification of the arbitration role of labor personnel management units. When foreign-invested enterprises employ technical personnel, managerial personnel, and technical workers who received on-the-job training in state-owned enterprise projects, the unit employing the personnel, or the staff members and workers themselves, should pay the original unit a personnel training fee. When an enterprises discharges or retires staff members and workers, the enterprise should pay a fixed living support allowance. Labor

management units should limit themselves to arbitrating the amount of allowances to be paid. Units in charge of enterprises, and labor personnel units should not further interfere with the movement of staff members and workers.

3. Build a uniform foreign-invested enterprise social insurance system, and spell out which labor units in each jurisdiction are to be responsible for managing this task. Labor contracts must include provisions for labor safety protection.

The Ministry of Labor can work with labor bureaus in all jurisdictions to build as rapidly as possible a uniform three kinds of partially or wholly foreign-owned enterprise social insurance system, and formulate uniform measures and uniform standards to institute uniform management. Labor agreements and contracts must include provisions for labor safety protection. All newly constructed, remodeled, and enlarged three kinds of partially or wholly foreign-owned enterprises must provide protective facilities for all dangerous jobs in the protection process, and for all harmful substances used in production, and these must be inspected and approved by labor units. Labor welfare rights and interests of staff members and workers must be clearly set and diligently enforced.

4. Adhere to a combination of plan regulation and market regulation, using plan to define and bolster the functions of units concerned to ease material supply difficulties.

Until such time as means of production markets are soundly based, one of two plans may be chosen to improve the material supply conflicts of three kinds of partially or wholly foreign-owned enterprises: First is to place the material supply of foreign-invested enterprises entirely within state plan, carrying out plan supply. The second is not to make material supply a part of plan quota, but have the state and local government material supply units make a "genuine goods at a fair price" allocation to satisfy three kinds of partially or wholly foreign-owned enterprises' needs for critically short goods. In addition is the building and bolstering of foreign-invested enterprise material service companies, the state providing needed support, enabling them to be involved with plan definition, accept commissioning from enterprises, and become major channels for supplying foreign-invested enterprises with means of production. Materials service companies would assemble the main materials that three kinds of partially or wholly foreign-owned enterprises need for production, providing them at market prices.

5. Perfect pertinent laws and various rules and regulations, gradually beginning to build Chinese international marketing channels.

We believe that the preferential treatment accorded foreign-invested enterprises of "reduced taxes for two years and an exemption from taxes for three years from the year of first profits" should be changed to "reduction

or exemption from taxation for one year after going into production." This is a means of avoiding or reducing foreign trader falsification of costs, evasion of tax payments, and transferring profits outside the country that result from China's inadequate monitoring techniques.

Tax units concerned with foreign nationals must devote serious attention to the study and formation of methods for the prevention of tax evasion, providing a legal basis for the prevention of tax evasion. They must build a transfer price system, meaning that they must use pricing methods commensurate with three kinds of partially or wholly foreign-owned enterprises' international trading methods, and places where business is transacted, setting earnings and fees, formulating as quickly as possible in the tax code a transfer price system that is quite complete. They must establish a foreign nationals tax receipts intelligence center to provide intelligence data to personnel on the front line engaged in foreign national tax work to prevent tax evasion. They must do a good job in foreign national tax collection work, improve the quality of personnel engaged in foreign national tax collection work, and improve the quality of tax collection.

In the gradual building of Chinese overseas supply and marketing channels, procedures for exiting China must be simplified first of all, pertinent regulations diligently implemented. Export enterprises, import substitution enterprises, and enterprises whose foreign sales reach a certain figure should be accommodated in exiting the country as a means of helping them keep in touch with overseas supply and marketing firms. It is also recommended that Chinese agencies abroad concerned help assist three kinds of partially or wholly foreign-owned enterprises in the collection of all sorts of commercial information and the maintenance of liaison with supply and marketing customers as a means of getting around the situation in which foreign traders control supply and marketing channels. The supervisory and inspection work of industrial and commercial administrative and auditing units must be enhanced with regard to wholly foreign owned enterprises to solve the transfer price problem at its origins.

6. Effective actions must be taken to improve the understanding of managerial personnel and operating personnel at all levels in the external control system so they can do more in the way of three kinds of partially or wholly foreign-owned enterprises late phase administration and management.

A systematic and regular checking system must begun to be built whereby the personal welfare of managerial and operating personnel at all levels are linked to the quality of management services they provide to foreign-invested enterprises as a means of arousing their zeal. Government departments have to change their thinking. On the one hand, they must make genuine improvements in updating ideas, improving service, increasing work efficiency, and in managing foreign-invested enterprises in accordance with international practices. On the other

hand, they must quickly change from attracting foreign capital in large amounts to emphasizing the economic effectiveness of foreign-invested enterprises. They must change the former examination criteria used to attract foreign investments, and make tax receipts on profits, foreign exchange earnings from foreign sales, and the introduction of technology of foreign-invested enterprises criteria used in evaluating official career achievements in all departments concerned. A beginning has to be made in building a system for checking that has standards to improve economic returns.

7. Continue to deepen reform, creating an external environment for managing enterprises in accordance with international practices for foreign-invested enterprises.

Under conditions in which dual systems coexist, the difficulties that foreign-invested enterprises encounter cannot be entirely ameliorated through market regulation, commodity exchanges, and legal procedures. The role of coordinated management also has its limits. Therefore, while maintaining stability, it is necessary to continue in a planned way to promote the development and perfection of means of production, labor, capital, and foreign exchange markets to provide survival and living space for foreign-invested enterprises, which are completely market-oriented economic organizations. At the present time foreign-invested enterprises are anxious to be covered by plan, but we feel that this runs contrary to the country's original intention in importing foreign capital. Over the long-term, this should not be the direction of development for foreign-invested enterprises. The fundamental way out of difficulties for foreign-invested enterprises is to develop and perfect markets. Foreign-invested enterprises ought not be assimilated into the old system that is now in process of being, or will be, reformed. This does not mean a ruling out of flexible transitional expedient measures. Rather it proposes that such expedient measures must be maintained synonymous with the orientation of development of foreign-invested enterprises. Not only must banks take into consideration the real difficulties of foreign-invested enterprises, apportioning support from credit quotas available within plan, but the state must use policies to encourage foreign-invested enterprises to issue stock shares and bonds both inside China and abroad as ways as financing measures.

8. Forces must be organized to carry out a systematic inventorying of all laws, regulations, policies and measures having to do with foreign nationals in order to shape a complete, highly effective, and transparent legal and policy climate.

It is recommended that authoritative agencies with authorized managerial responsibilities take the lead in performing the needed inventorying of existing laws, regulations and policies and in completing associated tasks. (1) Detailed rules and regulations should be put into practice as a accompaniment to the earliest appearance of the basic law for a change in the direction of

regularized "legal system" control. (2) Laws and regulations should be inventoried, loopholes plugged, and collisions between conflicting regulations avoided. For example, the "preferential policy of a two year reduction and three year exemption from taxation of profits" should be revised as quickly as possible as a means of plugging the loophole through which foreign-invested enterprises avoid taxation. Different customs duties rates for certain industries and certain products, and different tax rates for intermediate links should be made uniform as quickly as possible to form conditions whereby enterprises compete equally, etc. Such loopholes and contradictory provisions must be gone through, revised, and perfected.

### Expanding Exports to U.S. in Light of Antidumping Act

91CE0544A Beijing GUOJI MAOYI [INTERTRADE]  
in Chinese No 3, 27 Mar 91 pp 14-17,32

[Article by Zhou Shijian (719 0013 0313) Tianjin Foreign Trade Institute: "Forthright Approach to America's Antidumping Laws in the Expansion of Exports to the United States"]

[Text] America's foreign trade deficit has grown swiftly since the 1980's. After topping \$100 billion in 1984, it continued to rise, becoming a hot spot about which the government and the public alike are concerned. American trade protectionism is increasingly on the rise, and American legal measures—the antidumping law—are playing an increasingly important role. Incomplete statistics show that a total of 283 antidumping cases were filed between 1980 and 1985. In 1988, 100 were filed, and in 1989 the number rose precipitously to nearly 400. Most of the commodities concerned in these cases are those that enjoy good sales, and that involve large amounts of money and quantities. For example, in 1989, the United States conducted an antidumping investigation of chemical fiber sweaters from Taiwan, South Korea and Hong Kong. The amount of money involved in this case alone was \$886 million.

Under these circumstances, China's commodity exports to the United States have also encountered a gradual increase in the number of antidumping suits filed. Incomplete statistics show that antidumping suits were filed against 24 different commodities that China exports to the United States, accounting for more than half of China's trade cases in the United States. This adversely affected hundreds of millions of dollars worth of China's exports. These 19 [sic] commodities were menthol (9 June 1980), printed cotton polyester fiber cloth (5 August 1982), cleaning rags (24 August 1982), canned mushrooms (18 October 1982), potassium permanganate [22 Feb 1983], chloropicrin (6 April 1983), barium carbonate [24 October 1983], barium chloride (24 October 1983), hog bristle paint brushes (19 February 1985), cast iron items (4 May 1985), steel nails (4 June 1985), paraffin candles (4 September 1985), small diameter welding rods (13 November 1985), enamelled

lamps and lanterns (4 December 1985), ball bearings (25 August 1986), baseball caps (25 May 1988), hand tools (4 April 1990), electrically detonated firecrackers (3 July 1990), and electric fans (31 October 1990). The Chinese companies concerned adopted a positive attitude for the most part regarding the above cases. They improved control over exports to the United States, and retained experienced lawyers to contest the suits on reasonable grounds. As a result, China won the suits involving the menthol, the canned mushrooms, the barium carbonate, the small diameter welding rods, the ball bearings, and the baseball caps. Although China did not win some cases, the degree to which the United States Customs levied antidumping duties declined greatly. However, because of failure to choose good lawyers, or because the professional personnel concerned did not fully understand the antidumping laws, or because of insufficient experience in counter pleas, some cases were lost when victory was within sight despite money having been spent on hiring lawyers.

Guarding against and good handling of European and American antidumping cases against China's export commodities holds important practical significance in assuring smooth fulfillment of the task of expanding exports.

### 1. Highlights of the American Antidumping Law

America's antidumping law was drawn up in 1921. In 1979, it was substantially revised and made a part of the customs duties code, articles 731 through 740. According to the provisions of the antidumping law, once the United States International Trade Commission (ITC) determines that a foreign company's exports to the United States substantially damage or threaten an American industry that manufactures the same or a similar product, and following investigation by the International Trade Administration (ITA) of the Department of Commerce that results in a ruling that this commodity is being sold in the American market at lower than a fair value, an antidumping duty may be levied on this commodity.

American manufacturing firms that produce the same or similar commodities, manufacturing business associations, and labor unions, wholesalers who deal in the same or similar commodities, or chambers of commerce may file complaints against the International Trade Commission and Department of Commerce. Then these two organizations investigate and make either a preliminary or a final ruling.

The International Trade Commission concentrates on investigations into instances in which large scale imports of foreign commodities at low prices within a short period of time lead to the inability of American products to compete at a low price, a decline in production, a reduction in profits, a dwindling of market share, or may even lead to plant closings and bankruptcy. Once the foregoing situations are found, such commodities may

be ruled to create substantial losses or pose a threat to American industries that produce the same or similar products.

The Department of Commerce International Trade Administration is responsible for investigating and determining the extent of dumping. In order to do this, it must first determine what is a fair value. If the commodity comes from a market economy country or territory, the sale price in the local market is the fair value. If the commodity comes a country with a centrally planned economy, the domestic market price of the same kind of commodity in an equivalent third country at generally the same level of production has to be found to serve as a surrogate. If such a surrogate cannot be found, an extrapolated price or structural price may be used, which means conducting an investigation in the exporting country of the amount of land, plant buildings, equipment, labor force, raw and processed materials, and energy used to produce a certain number of the products. Then, the cost of this land, plant buildings, equipment, labor force, raw and processed materials, and energy in a country or territory at the same general level of production is calculated, adding to it transportation costs, a 10 percent enterprise management fee, and an 8 percent reasonable provide to yield the "fair" value.

Antidumping case hearing procedures are as follows: Within 20 days after a firm files a charge, the Department of Commerce International Trade Administration decides whether to place the case on file for investigation and prosecution. Within 45 days, the International Trade Commission conducts a hearing at which the plaintiff and the accused state their position through lawyers. The International Trade Commission then makes a preliminary decision about whether the commodity does or does not do substantial damage or creates a threat to the American industry that makes the same or similar products. Within 160 days after the complaint is filed, the Department of Commerce determines the fair value, and makes a preliminary ruling about the degree that the price is below the fair value (either the plaintiff or the Department of Commerce may request a 50 day extension). From the day that the Department of Commerce publishes the preliminary ruling, the U.S. Customs begins to collect a security deposit on the commodity to the degree that the price is below fair value according to the preliminary ruling. The antidumping duty is set in accordance with the degree to which the price is below fair value in the Department of Commerce final ruling. Any overpayment of the security deposit that the importing firm has paid is refunded, the firm making a supplemental payment for any deficiency. Seventy-five days following the initial ruling, the Department of Commerce makes a final ruling (the plaintiff may request a 60 day extension). Before making the ruling, the Department of Commerce holds hearings at which both parties present their arguments. After the Department of Commerce make a final ruling, the case is returned to the International Trade Commission, which holds a hearing within 45 days. Both parties present

arguments, the International Trade Commission making a final ruling as to whether there is substantial damage or a threat to the American manufacturers of the same or identical products. The foregoing consists of a total of three hearings, and four rulings. Except for the International Trade Commission's initial hearing, if only a single one of the other three rulings is denied, the antidumping case stops with victory for the accused. When the International Trade Commission makes the final ruling, if a majority or half of the six members approve, the ruling passes, and the antidumping case is upheld. Seven days later, it is published in the "Federal Register," and antidumping duties begin to be levied. From the filing of a complaint until an antidumping case is upheld, at least 287 days are required. If either the plaintiff or the defendant in the investigation requests extension, it may go for as long as 397 days. An appeal may be made within a year from the date of publication to investigate whether the commodity is sold in the American market at below fair value. A fair value is not immutable. Upon appeal, investigation must be done on the basis of the market situation at that time. If after two appeals, i.e., two years later, the commodity is not found to be at lower than the fair value, the defendant may request rescission of the dumping case. At this rate, after a foreign commodity is ruled to be a dumping case in the United States, the case goes on for more than three years, and money must be spent on lawyers. One might say that the working people are the losers. Not only this, but once a dumping complaint is lodged against a commodity, this is bound to have an adverse psychological effect on the American importing firm. This seriously impairs the export of this commodity to the United States, and may even force its retreat from the American market.

## 2. Unfairness of America's Antidumping Laws for China's Exports

When western countries use anti-dumping measures to restrict the entry of foreign products, they always wave the banner of fair and reasonable competition, denying the reality of their own trade protectionism. America's antidumping law also contains some inequities with regard to China's exports; thus, the rulings that are made are unfair.

1. United States antidumping laws permit market economy countries to use the ex-factory price of their products as a fair value; consequently, these exporters know very clearly whether or not the prices of the commodities that they sell to the United States constitute dumping. In China's case, however, the U.S. Department of Commerce artificially seeks a "fair value" in its investigation of cases. Before a case occurs, or even during the process by which a case is being put on file for investigation and prosecution, China's exporting corporations do not know at which level to set the prices of their export commodities so as not to be sued.

2. One of the principles used in setting prices of exports is to arrive at the price on the basis of quality, a high

price for premium quality and a reduced price for low quality. In making price comparisons, however, the U.S. Department of Commerce rarely considers the quality factor. If, for example, Chinese-made candles contain bubbles or smoke, naturally they will sell for a lower price. Nevertheless, the U.S. Department of Commerce makes comparisons solely on price, with the result that 54 percent of Chinese candles are deemed to have been "dumped."

3. When selecting a surrogate, the U.S. Department of Commerce compares developed or fairly developed countries and territories with China, which results in inequities. An example is comparison of cast iron item production costs in China with those of Japan and Sweden, which results in an 11.66 percent dumping rate for China. In addition, Indian cast iron wares that have been investigated on dumping charges are largely identical in price to those from China; however, since India is a market economy country for which its own ex-factory prices are used as a basis for deciding a fair price, it has been ruled not to be dumping. The same products from two different countries having a similar level of production sell at roughly the same price in the American market, yet an entirely different and very unfair outcome results.

America's antidumping law does not take into account the actual production costs of Chinese exports, but rather uses the price of the same item from a "surrogate country" as the standard for deciding whether there is dumping. Such a system overlooks the fact that China is no longer solely a plan economy country with a centrally planned economy. China's systemic economic reform has been going on for more than 10 years, so now multiple economic components exist: state-owned enterprises, collective enterprises, three kinds of partially or wholly foreign-owned enterprises, and individually owned enterprises. Of particular note is the burgeoning development of township and town enterprises, in addition to which state-owned enterprises have also promoted contract systems and the trial use of stock share systems for a long time.

At a joint Sino-American business committee meeting in May 1987, leaders from China's Ministry of Foreign Economic Relations and Trade pointed out: "We have noted that the United States is considering revision of its antidumping law. We hope that the United States will take full account of the reform of China's economic system. China will institute a planned commodity economy system. In the reform of this system, market mechanism elements are increasing day by day. Restrictions are being gradually removed from the prices of some commodities for the implementation of a price system in which state guidance prices are used in conjunction with market regulation, enterprises setting prices on the basis of production costs and the relationship between supply and demand. For the United States to sweepingly process and handle the commodities that China ships to the United States in accordance with the special provisions relating to market economy countries

in the trade laws is unfair. We hope that the United States Government will proceed from the interests of developing Sino-American trade to a proper solution to this problem."

In order to solve this problem, some American corporations set up the "Committee For Fair Trade With China." The committee's special advisor, the former American Secretary of Commerce and Attorney General, Elliot Richardson; and committee chairman Edward Furia submitted a study of the American antidumping law. The study maintained that "American antidumping laws are extremely unfair to China." The committee pointed out that "revision of certain portions of the antidumping law, and the establishment of a third category between the market economy and the nonmarket economy—the planned market economy category—to give the antidumping law flexibility in dealing fairly with developing economies such as China's" would enable these countries to set their own product costs rather than be compared with surrogate countries. In August 1987, former presidents Nixon, Ford, and Carter each wrote letters to Congress supporting revision of the antidumping laws. They agreed with the "Committee for Fair Trade With China's" amendment of the trade laws as a means to advance fair trade with China. The efforts of various parties were later reflected in a new comprehensive trade bill. This bill explicitly required that the Secretary of Commerce study China's new market mechanism trends, and the effect of these trends on China's market policies and price mechanism, as well as the correlation between China's domestic prices and international prices. The secretary was to study the degree to which American trade laws were consistent with these trends; and study the necessity for provisions in the revision of United States antidumping laws that pertained to traditional countries such as China that were in process of moving more toward market economies. The Secretary of Commerce was to report the results of this investigation to Congress within one year after the bill became effective, i.e. by 23 August 1989. The significance of the foregoing regulation is that for the first time the United States acknowledged in its trade laws the changes in China's economic system, and how it differ from a purely planned economy. The United States was also preparing to study this special situation. This provided the possibility of a further revision of antidumping law provisions that are unfair to China. Subsequently, for reasons known to all, the U.S. Department of Commerce did not send a survey delegation to China. Of course, changes in American trade law legislation are affected by America's foreign trade balance of payments, the fluctuations in the competitiveness of American industry, and the rise and fall in protectionist sentiment. Thus, one cannot anticipate any changes that will be more equitable within the near future. We should be mentally prepared in this regard.

### 3. Experience and Lessons

1. Low prices are an important reason for the antidumping complaints against China's exports. The objective reason for the increase in recent years of antidumping complaints filed against China's exports to the

United States is the ever increasing stridency of American trade protectionism. The subjective reason is that the quality, specifications, color, and packaging of China's exports are not suitable for the American market. They cannot be sold for higher prices. In addition, problems also exist in trade conditions, particularly transportation conditions, and payment conditions. Deliveries take a long time, and payment conditions do not accommodate customers. This makes sales at good price difficult. Third is the multiplicity of Chinese agencies and the lack of effective coordination and control among them.

2. The retention of eminently experienced lawyers is an important factor in winning suits. In antidumping litigation in the United States, one must retain an American attorney as an agent in the litigation. The materials and data that China provides are handled confidentially by the lawyer, and only if one has a lawyer is it possible to touch the confidential data of the other party to the litigation. Therefore, how to retain an eminently experienced lawyer who is friendly to China is of crucial importance; otherwise one can hardly expect to win an antidumping suit.

3. Antidumping cases handling conscientiously, actively responding to United States Department of Commerce investigations. The degree of leniency shown in the application of the antidumping law may be easily affected by economic and political actors. In the process of investigating antidumping charges, the Chinese parties concerned give sufficiently serious attention to and coordinate with other sectors to influence the United States Department of Commerce, while simultaneously cooperating closely with Department of Commerce investigations to influence a favorable outcome for ourselves. The China National Grain, Edible Oils, and Food Import and Export Corporation's success in responding to the canned mushroom antidumping case was a case in point.

4. Prompt rise in prices to seize the initiative. The American antidumping law provides that the period for investigating a commodity accused of being dumped is the end of the fifth month after a complaint is filed. Therefore, China's export corporations must keep well-informed and react promptly. As soon as they receive word, they must raise prices at once and conclude agreements. This will play a positive role in reducing the incidence of China's commodities being sold at less than a "fair value."

5. Take the initiative in choosing "comparable prices." The key point in the antidumping law is determination of "fair value." To a very large extent, China's ability to win suits is dependent on being able to select a "surrogate country" with a level of economic development close to that of China, and to find out quickly whether its prices or costs of production are similar to China's. In the mushroom case, after China's lawyers found out the price situation in several countries and regions, they finally agreed with the United States Department of

Commerce to select Indonesia as the "surrogate country." This choice became the key element in China's winning the suit.

#### 4. Remedies

1. Better coordination and control over exports to the United States. In recent years, both the sales channels and the prices of China's exports to the United States have been rather disorderly. This has caused intense dissatisfaction on the part of old customers, and has dampened their interest in selling Chinese merchandise. Japan's experiences in taking a unified international stance and coordinating management merits serious attention.

In cases where Chinese goods already hold a certain dominance in the American market, where the market is tending to become saturated, and where competition to export commodities reduces foreign exchange earnings, China should continue to use export permits and the quota system. For those commodities that form a fairly large percentage of exports to the United States, China should either give a monopoly to a corporation or a corporation should share a monopoly with a corporation in the main export trading port. This would help coordinate exports to the United States, reducing opportunities for others to gain the upper hand. In addition, when exporting to the United States, a sudden increase in the landing of merchandise within a short period of time, or corporations swarming to every port in cut-throat competition whenever a certain commodity sells well should be avoided. Such a situation is extremely disadvantageous to China when the United States International Trade Commission makes a ruling.

2. The export of commodities must shift rapidly from "winning success due to prices" to "winning success due to quality." Price is the central issue in antidumping cases. Consequently, when the amount of staple commodities reaches a certain percentage, while moderately increasing quantity, vigorous efforts should also be made to improve quality, to provide additional colors and varieties, to improve packaging, to improve the quality of after sale service, and to raise prices as market conditions warrant. Even in the case of commodities exported in small numbers, prices should not be held too low. For example, only slightly more than \$300,000 worth of potassium permanganate was exported to the United States, a rather low percentage of total requirements; however, because of its low price, a dumping complaint was leveled. Therefore, when dealing in the American market, one cannot hold down prices in endless concessions to importing firms, thereby placing oneself at a disadvantage.

3. Whether to respond to a complaint will depend on the amount of money involved. Generally, one must respond to dumping charges. Failure to do so will mean that the United States Department of Commerce will have only data that the plaintiff has provided and the

data that plaintiffs possess to make a ruling. The outcome is bound to be extremely disadvantageous to China. In the case of specific commodities, however, if amounts are small, if future potential for development is not great, and if there is no hope of making a successful challenge to a dumping charge, the gains should be weighed against the losses, and no response to the complaint need be made.

4. Take the initiative on the work of the U.S. Department of Commerce and the International Trade Commission. Once a case is filed, the initiative should be taken in providing data to the Department of Commerce and the International Trade Commission stating China's position. When the U.S. Department of Commerce sends people to China to investigate, they should be warmly welcomed, and the factory being investigated should make full preparations. At the same time, it is necessary to get some U.S. Government departments or large corporations to exert influence on the Department of Commerce and the International Trade Commission inasmuch as the severity of the antidumping law is very elastic.

5. Throughout the antidumping case process, attention should be given to arousing the interest of American importers. In antidumping cases, China's gains and losses are identical with the gains and losses of American importers, so attention must be paid to arousing the interest of American importers to work in coordination with us. Importers know more than we about the plaintiffs and the American industries that make the same products. Importers can play a very great role in getting witnesses to appear in court and in challenging the losses of American industries that make the same products.

6. Take the initiative in consulting with the other party, doing all possible to avoid responding to the suit or losing the suit. When information is obtained that an American firm is about to file a complaint, if our chances of winning are deemed slight, either a Chinese corporation or an importer should be mandated to initiate discussions with the other party to make promises about the amounts exported or prices, or else to reach an agreement where we will limit ourselves in order to avoid a lawsuit. In the process of responding to the suit, sometimes the plaintiff desires an out of court solution. We can take the initiative in consulting with the other party, making some concessions in order to obtain an out of court solution.

7. Diligent study of America's trade laws to improve ability to respond to emergencies. Expansion of exports to the United States inevitably requires familiarity with America's trade laws. China's business personnel must diligently study American antidumping law regulations, provisions, precedents, and enforcement procedures, and they must study the policies and measures that we should adopt to maintain China's legitimate rights and interests. For countries trading with the United States, cases in which such trade disputes occur are common.



Once they occur, it is necessary to study local laws closely, handle them properly, and strive to win the lawsuit.

### Issues Facing Shanghai's Foreign-funded Enterprises

91CE0352A Shanghai CAIJING YANJIU [THE STUDY OF FINANCE AND ECONOMICS] in Chinese No 1, 3 Jan 91 pp 20-23

[Article by Xu Xinli (6079 1800 4409): "Efficiency Analysis of Enterprises of 'Three Capital Sources' in Shanghai"]

[Excerpt] [passage omitted] III. Several Noteworthy Issues in Further Developing Enterprises of "Three Capital Sources."

#### 1. Continue to improve the investment environment

Shanghai's investment environment has improved substantially, but there is much to be desired in its intangible aspect and further improvement is needed. For instance, definite problems exist regarding the medical and health care of enterprises of "three capital sources," the education of children of foreign nationals, the arrangement of Chinese personnel, personnel transfer, and litigation. We should gradually solve these problems. Supervising departments at all levels should reduce unnecessary administrative interference in enterprises of foreign investment and grant them full decision-making power. For instance, a certain enterprise of "three capital sources" in Shanghai had planned to build a warehouse on the first floor to make it convenient for entrance and exit, but the department concerned thought that it would not look good to have the warehouse on the first floor, so it demanded that the garage be built on the first floor and the warehouse on the second floor. As a matter of fact, there is no need to interfere too much in such matters. It should strictly avoid transplanting the administrative practice of domestic enterprises onto enterprises of "three capital sources." We should do things according to existing policies, laws, and regulations and honor contracts. We must not ignore existing law and fail to enforce it strictly. With regard to various demands, complaints, and suggestions made by foreign businessmen, we should promptly improve on what is reasonable and can be done, enact proper legislation, promptly solve problems that should be solved, and provide clear explanation for unreasonable demands and what cannot be done for the time being. The board of directors or managers of the Chinese side should undergo strict evaluation and intensive training. We should choose people who have good qualities and know the ropes to serve in such posts.

#### 2. Help Enterprises of "Three Capital Sources" Solve Problems Facing Enterprise Production

Supervising departments should proceed from the situation as a whole and give priority to ensuring the supply of raw materials and supplementary funds. All service

departments, especially electric, gas, communications, transportation, financial, customs, and commercial inspection, should strengthen the concept of service and voluntarily provide quality service. Running well a group of enterprises of "three capital sources" will have an impact on many other such enterprises. This is extremely important to improving the reputation of Shanghai and the state. We should pay special attention to implementing supportive measures in export-oriented enterprises of "three capital sources" so as to strengthen their export-oriented operational mechanism.

#### 3. Perfect the Effective Management of Enterprises of "Three Capital Sources"

Reducing administrative interference in enterprises of "three capital sources" by no means means to let things slide. Rational regular business administration is extremely necessary. It also conforms to international practice. Some enterprises of "three capital sources" fear the management model of state enterprises under China's current system. They also fear that without an effective authority, they would not be able to solve their problems when they have problems because they would not know where to turn. They even request that we quickly set up an authoritative managerial organ which can exercise complete control. This reflects their contradictory status of mind.

Strengthening the effective management of enterprises of "three capital sources" has become a matter of top priority. Generally speaking, most foreign businessmen investing in Shanghai are manufacturers engaging in normal businesses. However, a few foreign businessmen are interested in only making money for themselves and ignore the interests of joint ventures or cooperative enterprises. They often control the power to import equipment, purchase raw materials, and sell products and earn big money with the trick of high import and low export. For instance, a certain Hong Kong manufacturer established three joint ventures in Jiaoxian County and made a large sum of money through the import of equipment alone. Then it made 25 percent of investment for joint ventures. Since the money it earned through equipment import is much higher than the amount of its investment, it does not care at all about the management results of enterprises. Some joint ventures also violate the export quota specified in their contracts to make money on the domestic market, thus resulting in problems in balancing their own foreign exchange. We should strengthen the effective management and supervision of such enterprises.

Wholly foreign-owned enterprises are not lucrative as far as our side is concerned. Foreign businessmen often conceal facts about business. The subsidiaries of some transnational companies, in particular, use the so-called internal transfer prices to import raw materials and equipment at high prices and export products at low prices to avoid profit and tax. As a result, our side does not profit much from such enterprises.



The registered capital of foreign investors is too low. Foreign businessmen raise all their investment funds, except for registered capital, in China, thus increasing monetary pressure on China. According to the appraisal of industrial projects of five joint ventures conducted by the Shanghai Branch of the Construction Bank of China in 1989, the percentage of Chinese cash investment is as high as 80 percent. According to the statistics of 291 foreign-funded enterprises in early 1988, registered capital accounted for only 41.8 percent of total investment. Due to this, we should further increase the percentage of registered capital to prevent the loss of profits to foreign countries.

#### 4. Perfect the Financial Service System

To attract more foreign capital and suit the needs of Shanghai's export-oriented economic development, we should establish a multi-purpose, diversified financial system. The financial industry should provide not only services for the deposit, withdrawal, loan, and remittance of domestic and foreign currencies but also more diversified and updated all-directional international financial services. They should become enterprises' guide, medium, and pillar in entering the international market. They should also exercise their unique functions of raising and borrowing foreign funds. Currently neither the structure nor the quality of Shanghai's financial industry can meet such needs. Ways to improve this are: 1) speeding up the tempo of Shanghai's financial system reform and 2) bringing in an appropriate number of foreign banks, wholly foreign-owned enterprises, or joint ventures. The existing four foreign banks—the Hong Kong and Shanghai Banking Corporation, the Standard Chartered Bank, the East Asian Bank, and the Overseas Chinese Bank—and three foreign loan companies in Shanghai still cannot meet the needs of developing Pudong and utilizing foreign capital in Shanghai. Opening up some foreign banks can bring in competitive mechanism, new monetary means, and new economic information. It can help, in particular, existing enterprises of "three capital sources" in raising and borrowing funds. It can also bring in new foreign capital and make Shanghai become a window for coastal and inland areas to raise foreign funds and a center for domestic and international import and export settlement. At the same time, it can also accelerate the reform of domestic financial system, raise administrative and management level, increase service efficiency, gradually establish and perfect the financial market, and create conditions for restoring Shanghai's status as the Far East financial center.

Since foreign banks have abundant resources, many clients, longer business history, and multiple accesses to the information network, they will create some pressures for domestic financial industry. Because of this, we cannot "open to everyone" all at once. Instead we should let in one group at a time. When choosing the candidates, we should consider what country they are from, how much financial power they have, how well known they are, and other factors such as the principle of reciprocity

and economic and trade relations with China and choose those who have better conditions. We should also adopt some protective policies and exercise effective supervision and management of foreign banks.

Perfecting the financial system to make it strong and flexible not only can speed up and improve the utilization of foreign capital and the development of the Pudong area but also can accelerate Shanghai's transition to an export-oriented economy in the 1990's. At the same time, through its guiding function, the financial industry can develop Shanghai's "gathering and dispersing function" in regard to capital, personnel, information, and science and technology and turn Shanghai into a modernized, multi-purpose, and export-oriented internationalized metropolitan area.

Generally speaking, Shanghai has made definite achievements in the actual work of utilizing foreign funds in recent years. But they are still not commensurate with Shanghai's economic position and goal. The speed of the utilization of foreign capital is not fast enough. In 1989 a total of \$10.06 billion of foreign capital was actually used by China and Shanghai used only \$420 million, accounting for only 4 percent of the national figure. As of the end of July 1990, 25,220 enterprises of "three capital sources" were approved by China, and Shanghai had only 807 such enterprises, accounting for only 3.19 percent. In order to revitalize Shanghai's economy, expand the scale of foreign capital use, and develop an export-oriented economy, we must continue to strive to do a good job in the utilization of foreign capital.

#### Prospects for Foreign Trade in Nineties

91CE0473A Beijing GUOJI MAOYI [INTERTRADE]  
in Chinese No 1, 27 Jan 91 pp 4-7

[Article in "Forum" column by Li Yushi (2621 7183 2514) of the International Trade Research Institute in the Ministry of Foreign Economic Relations and Trade: "Prospects for Development of China's Foreign Trade in Nineties"]

[Text] The eighties were an era in which many notable successes were achieved in China's policy of reform and opening up to the outside world. In the foreign trade domain, development was especially notable. In the period 1979-1989 the total volume of China's foreign trade rose from \$29.333 billion to \$81.555 billion, an increase by 1.78 times. What should be pointed out in particular is that in the eighties the world's economy and foreign trade grew slowly. Under fairly unfavorable circumstances exacerbated by foreign trade protectionism, there was still a very big development of China's export trade, which rose from \$13.66 billion to \$43.28 billion, an annual average growth rate of 12.3 percent. This was not only higher than the annual average growth rate of 9.1 percent in China's national economy as a whole, but also exceeded the export growth rates of the great nations of the United States, the Soviet Union, India, and Brazil. The first change in the export

commodity structure—the change from giving priority to the export of primary products to giving priority to the export of finished industrial products—has basically been achieved. The proportion of finished industrial products in the total export volume rose from 46.4 percent in 1979 to 70 percent in 1989, and in the same period the share of primary products fell from 53.6 percent to 30 percent. Considerable progress was made in pluralizing the geographical orientation of trade as China established and developed economic and trade relations with more than 180 countries and regions in the world. Diversity and flexibility appeared in the forms of trade as many flexible forms of trade—processing, assembling, compensatory trade, lease trade, and border trade—were widely adopted. Through 11 years of reform and opening up to the outside world, the depth and breadth of China's participation in the international division of work and in international exchange increasingly expanded, and its ties with the world's economy became increasingly closer. The development of foreign trade not only is an inseparable component part of China's economic development, but also is an indispensable motive force and condition for the promotion of its economic development.

From the macroeconomic angle, in the nineties China should accomplish three goals in its export trade: (1) To insure the sustained, coordinated, stable development of the national economy and to be able to repay the interest on foreign debt, the export trade should maintain a growth rate higher than the national economy's growth rate, namely, 2 - 3 percentage points higher than the growth rate of the gross national product, and an average annual increase of 7 to 9 percent. (2) Constantly improving the macroeconomic results of export trade, and bringing about a situation in which export production enterprises and foreign trade enterprises are responsible for their own profits and losses and in which they act on their own initiative in business operations, so that foreign trade better serves the optimal disposition of the natural resources in China—this is a fundamental goal in the development of foreign trade. (3) Continue to improve the export commodity structure, and strive to raise the proportion in the total volume of export of capital- and technology-intensive products and of high add-on value finished industrial products, in order to effect the second change in the export product structure, namely, changing from giving priority to the export of labor-intensive products and low add-on value finished products to giving priority to the export of capital- and technology-intensive products and of high add-on value finished products. With regard to specific export goals, for example, in line with the original plan for quadrupling China's foreign trade export by the year 2000, the volume of export at that time is to be \$80 billion. Taking \$43 billion in export volume in 1990 as the base, it is only necessary to have an annual increase in export of 6.4 percent to fulfill this scheduled plan. However, based on the reality of the development of China's export trade in recent years, and taking into consideration the need for foreign exchange to develop the national economy

and the demand for repayment of capital with interest on foreign debt in the nineties, we think that the volume of export could reach \$100 billion by the year 2000. For example, taking the actual export volume in 1990 of \$46 billion as the base, with an average annual increase in export of 8.1 percent, the abovementioned goal can be accomplished, and this rate of increase basically meets the requirement for the growth rate of foreign trade to be two to three percentage points higher than the national economy's growth rate. The growth rate of import trade will, for the most part, be on a level with, or slightly lower than, the growth rate of export trade, in order to maintain a basic equilibrium in China's balance of international payments and in its ability to repay the capital with interest on its foreign debt.

With regard to export commodities, electromechanical products and finished industrial products with high added-on value will be the products that are developed the fastest, and their proportion in the total export volume will rise markedly. Light industry and textile products will still occupy the dominant position in export trade. The growth rate of products of a natural resource nature and of agricultural and sideline products with a low add-on value will be slowed, and their proportion in the total export volume will fall.

From a look at the trend in the changing geographical orientation of trade, we see that the markets of the developed countries and of the Hong Kong and Macao region will still occupy the main position as objects of China's trade. However, China's trade with the great number of developing countries and regions in Asia, Africa, and Latin America, particularly its economic relations with countries in the Asian and Pacific region, will develop fairly quickly. There is a definite potential in developing trade with the Soviet Union and the East European countries, but the degree of this development will depend on the state of economic development attained by the two sides, the changes in the forms of trade, and many other factors.

We think that whether the abovementioned goals for the development of foreign trade can be accomplished mainly depends on China's international political environment, the changes and developments in the international market, and the state of development of China's national economy as well as the deepening of the reform of its economic system and foreign trade system.

From a look at the trends in the development of the world's economy and trade, we see that in the eighties, because various countries in the world adjusted their economic structure and industrial structure, production was further internationalized; because of the trend toward relaxation in the international situation and in East-West relations; because of the rapid development of the technological revolution, with microelectronics, computers, new materials, and information industries as its center; and because an increase in the price of oil is anticipated and a series of other favorable factors, the growth rates of the world's economy and trade in the

nineties will be higher than in the eighties, respectively at an annual average of 3 to 3.3 percent and of about 5 percent, of which the growth rate in the second half of the decade could be higher than that in the first half of the decade.

The change in the commodity structure of world trade will continue the trend of the eighties, i.e., the proportion of finished industrial products will rise and the proportion of primary products will tend to fall. Of the finished industrial products, electromechanical products will develop most rapidly in international trade and will be the products with the most potential; the market for light industry and textile products will continue to expand, but competition will be more intense; the momentum for chemical industry products to flourish can be expected to continue; and the fastest growing domains of trade will be those of new-type materials and synthetic materials, microelectronic products, and technology.

On the other hand, the trends in the development of the world's economy and trade will cause China to face some difficult and detrimental factors in the development of its foreign trade in the nineties. For example: the transformation of the world economy into regional blocs and the transformation of international trade into monopolies will be further strengthened, forming serious obstacles to China's development of export trade; the slump in the market for primary products will adversely affect China's export of a large amount of some traditional products of a natural resource nature; competition in international trade will intensify, and the changes in the political situations of the Soviet Union and the East European countries could cause more funds and technologies of the developed countries to be diverted to them, thereby putting China in an unfavorable position with regard to its drawing in foreign capital and technologies and in taking part in the international division of work and international competition; and economic sanctions on China by Western countries will also cause a certain adverse effect on China's early-stage attraction of foreign capital, importing technology, and export development in the nineties.

From the overall view, the external environment faced by China in the nineties will still be fairly grim. However, opportunity and challenge exist side by side, and in the development of export, mainly because of the continuing expansion of demand on the international market, the opportunity will be greater than the challenge. The key to turning opportunity into reality is our own hard work.

From a look at the domestic situation, we see that the development of China's export trade really faces some difficulties and problems, mainly manifested in the following several aspects: the contradiction between a certain degree of lead development in foreign trade and the restraining condition of the natural resources for the economy; the contradiction between centralization and division of authority; the contradiction between the demand for rapid expansion of export and China's lack

of competitive strength in the cost and quality of many export products; and, because of irrationality or distortion in domestic prices, taxes, and exchange rates, the situation in which foreign trade enterprises and export production enterprises have poor economic returns has not yet been fundamentally improved, and thus, to a certain degree, the rate and the scale of export development are restricted. These contradictions and problems are the main difficulties and obstacles that will block China from obtaining a sustained, coordinated, stable development of export trade in the nineties. There are two main ways to solve them: one way is to carry out improvement and rectification, and to insist on accomplishing the scheduled goals of reform and opening up to the outside world, so that the environment for development of the macro economy is relatively loose and comfortable; the other way is to continue to deepen the reform of the foreign trade system and to integrate reform and development, in particular truly stimulating, through reform, the foreign trade enterprises and export production enterprises, so that they gradually become responsible for their own profits and losses and act on their own initiative in business operations, and so that they have mechanisms to engage in competition on an equal basis. This will be an important part of the deepening of the reform of China's foreign trade system, and thus make the foreign trade enterprises run smoothly and will promote the sustained, stable development of foreign trade.

Since 1979 marked successes in many aspects have been achieved in the exploration and practice of reforming the foreign trade system, thereby creating favorable conditions for the development of China's export trade in the nineties. In particular, the foreign trade contractual management responsibility system, which was first put into practice in 1988, has aroused enthusiasm in all quarters for expanding export, enhanced the vitality of enterprises, and played a positive role in expanding export to earn foreign exchange. Generally speaking, this reform has been successful. However, in the present foreign trade system there are also some imperfect aspects and problems. In the future we must continue to solve these problems, spur foreign trade enterprises to take the path of being responsible for their own profits and losses, and strive to create the conditions for competition on an equal basis, so that the foreign trade system will tend to become more perfect.

Adjustment of the exchange rate is part of the deepening of the reform of the foreign trade system, and it also creates the necessary conditions for foreign trade enterprises to become responsible for their own profits and losses and to have mechanisms for competing on an equal basis. After the most recent adjustment of the renminbi exchange rate, the operating conditions in foreign trade enterprises still tended to be tight, and purchase prices and export costs could not rise in the wake of the adjustment. We certainly cannot allow a reciprocal rise in commodity procurement prices, and inappropriate increases in prices for the goods-supply

units must be stopped. Price departments must strengthen their control of prices and seriously deal with violations of the price policy. At the same time they must stop the phenomenon of taking this opportunity to force prices down.

Nineteen ninety-one is the first year in the Eighth Five-Year Plan, and is also a crucial year for accomplishing the goals of improvement and rectification. How foreign trade develops relates to the overall situation in the national economy. From now on, management must be enhanced in foreign trade enterprises, and an effort must be made to get a good grip on the quality of export commodities. Results must be obtained in enterprise management and commodity quality, so that fairly good results insure that a certain amount of foreign exchange is taken in by means of export. Semifinished and indiscriminately manufactured commodities certainly cannot be exported. Contracts must be taken seriously and promises must be kept; deliveries must be made on schedule; and in the export of electromechanical products, after-sales service must be enhanced. To insure in the future a suitable economic growth rate, we must insure that there is a considerable amount of import, particularly in the import of the means of production, and in this regard there must be adequate estimates and preparation. At the same time we must put to best use our limited foreign exchange.

China's overall standards of economic development and of technology and management in enterprise production are constantly rising, thereby laying a fairly solid foundation for development of export trade. Through improvement and rectification China's economic development will enter the stage of benign cycles. The chaotic phenomena in the foreign trade domain will be effectively brought under control, and the situation of poor economic results in foreign trade enterprises and export production enterprises will gradually improve. The devolution of foreign trade operational authority has fully aroused the enthusiasm of all quarters for the development of export and has injected a dynamic factor for the expansion of export. The series of policies and measures drawn up by the state to encourage exports—such as export duty reimbursement, preferential credit, foreign exchange retention, appropriate adjustment of the parity of exchange between renminbi and foreign exchange, etc.—have already and will continue to play a positive promotional role in export expansion.

#### South Korean Trade Representative Interviewed

91CE0339A Hong Kong CHINGCHI TAOPAO  
[ECONOMIC REPORTER] in Chinese No 7, 4 Feb 91  
p 27

[By reporter Yao Kan-nan (1202 6373 0589): "Interview With Pak Chan-hyok, an Official of the South Korean Representative Office"]

[Text] During an interview, Pak Chan-hyok responded to questions on the number of personnel at the Trade

Representative Office, its objectives, its short-term plans, and how it will promote imports and exports, the direction of investments, technological cooperation, and other questions.

The Beijing Representative Office of the Korean Trade Promotion Community [KTPC] was officially inaugurated on 30 January in Beijing. The first director of the representative office, No Chae-won, presided over the inaugural ceremony,

On their opening for business, this reporter took the opportunity to interview Pak Chan-hyok, the head of the trade section of the said representative office, at the Beijing Hotel. He replied one by one to the questions of this reporter:

#### Objective of Opening the Representative Office

Question: How many personnel will there be in the Beijing Representative Office of the KTPC? What are its main objectives?

Answer: The Beijing office will have a personnel of 20 persons, to engage mainly in trade promotion. Our KTPC was established in 1962. It is a nonprofit trade promotion organ which is to contribute to the development of our national economy through the promotion of international trade. Presently, the KTPC is particularly interested in overseas markets, and has already instituted studies of specializations and a computer-controlled collection of trade information. It is helping medium- and small-sized enterprises in overseas marketing and also imports, in order to achieve a balance in foreign trade. During the last years of the 1980's, promotion of direct trade with socialist countries was one of KTPC's key activities. In the 1990's, KTPC will become a trade advisory organ with wide-ranging concerns. Through regional economic cooperation it will attempt to achieve well-balanced trade growth. After the establishment of the Beijing representative office, relevant aspects of Korea's industry will be introduced to relevant department in China to promote investments, trade, and various forms of cooperation. On the other hand, it will inform Korean enterprises of Chinese interest in cooperation and trade. We shall also organize the visit of Korean enterprises to various Chinese exhibitions.

Question: On starting activities, what will priority items be for the Beijing representative office to undertake first?

Answer: At present, the most important thing is to participate in the international exhibition to be held in April in Beijing. There are also a number of issues to be discussed with the Chinese Trade Promotion Association, such as the question of Korean companies opening offices in Beijing, and also customs and other questions that have to be resolved.

Question: What are the aspects of China's economy in which Korea's industry and commerce is presently particularly interested?

Answer: Korea's industry and commerce is not sufficiently informed of China's economic condition. After we have gained an understanding of China's economic development and market conditions, we shall inform them. Labor costs are now high in Korea, and many enterprises therefore think of cooperating with China, setting up joint ventures, but that requires an understanding of Chinese conditions. Korean contacts are mostly with Shantung and Manchuria, and knowledge of these regions is somewhat better. However, since the national systems are different in our two countries, and forms of economic management are different, we shall provide them with relevant data as to how Korean industry and commerce can become actively involved in China.

Question: Are South Korean enterprises interested in China's conditions everywhere, along the coast and in the interior, or are there areas of special interest?

Answer: There is interest in almost all areas, but of course due to geographical location, and the longer distances to the interior, the main interest is still in Shantung, Manchuria, Shanghai, and the coastal region.

South Korean Trades That Would Possibly Invest in China

Question: As you see it, which Korean trades could successfully invest in China?

Answer: Cooperation is possible in many areas. As labor costs are comparatively high in Korea, and Korea lacks raw and semifinished materials, industries that could invest in China are the light industries, but also heavy industry, such as the electronic industry, textile industry, toys, electric home appliances, motorcars, the packaging industry, etc. In short, the area of possible investments is very broad. A combination of Chinese labor with Korean technology can lead to very effective results.

Question: What efforts are you going to make in the promotion of imports and exports?

Answer: We can expand exports of many products, such as electronics, motorcar parts, textiles, chemical fibers, etc. Much could also be imported from China, such as raw and semifinished materials, agricultural products, etc. We are now importing from China more than we export to China, and in future exports will be increased. We have to do much work in this respect. Seoul is not far from Beijing, a direct flight takes only two hours, but now we have to travel via Hong Kong, which is inconvenient, and that situation will also have to be addressed.

Optimism on Prospects of Economic and Trade Cooperation

Question: How do you assess the prospects for economic and technological cooperation between China and South Korea?

Answer: After we have established our Beijing Representative Office, Beijing will also open a representative

office in Seoul, which may perhaps require some time for preparations. After both offices will have started their regular operations, mutual contacts between personnel will be much facilitated. I am optimistic about mutual trade and technological cooperation.

Question: Has the Gulf war, which recently erupted, had any influence on our mutual economic and trade relations?

Answer: I believe it has had little effect on China, but much more effect on us. Inadequate supply of oil will have an adverse effect on many industries. Rise in oil prices will drive product prices up, and that will have an adverse effect on exports, and of course also on exports to China.

Enhanced Cooperation with the CHINGCHI TAOPAO

Question: Our publishing company produces a Korean issue of our CHUNGKUO CHINGCHI SUPAO [CHINESE ECONOMIC DIGEST], which is a weekly publication with economic information on China. I hope it may play a more important role in the future mutual economic and trade cooperation. Do you have any suggestions in this respect?

Answer: We too have a publication called HAIWAI SHIHCHANG [OVERSEAS MARKET] which informs on global trade and the needs of overseas markets; its purpose is the same as your CHUNGKUO CHINGCHI SUPAO. Besides, when I worked in Hong Kong, I read the CHINGCHI TAOPAO regularly; it is a very good publication.

Question: Will you in future let us know of some demands of Korean business circles? It would be very useful to improve our publication.

Answer: I certainly will. I hope we shall have more contacts in future, exchange information, and step up our efforts in the interest of improved economic and trade cooperation between Korea and China.

**Yunnan's Expanding Trade With Southeast, South Asia**

91CE0491B Beijing GUOJI SHANGBAO in Chinese  
19 Mar 91 p 1

[Article by Wang Ping (3769 1456): "Yunnan's Expanding Trade With Southeast, South Asian Countries"]

[Text] Yunnan is taking advantage of its status as a border province and carrying out a policy of integrating exports and imports, general trade and border trade, and domestic trade and foreign trade. In 1990, Yunnan Province earned \$434 million in foreign exchange (not including border trade) and fulfilled 138 percent of the state plan, a increase of 16 percent over 1989.

Although its export base is low, Yunnan has great development potential in this regard. During the Seventh Five-Year Plan, Yunnan's accumulated foreign exchange earnings amounted to \$1.581 billion, an increase of 176 percent over the amount during the Sixth Five-Year Plan. The annual growth rate was as high as 20 percent or more. This figure was higher than the national growth rate. The number of export items increased from more than 100 to over 300. The number of key items that can earn \$1 million in foreign exchange annually increased from about 20 to about 50. Exports of cigarettes, refined tin, tin, tea, and machine tools earned \$10 million in foreign exchange. The export product structure improved. Manufactured products' share of exports increased, which preliminarily changed the situation of depending on exports of agricultural and sideline products, as well as of raw materials, to earn foreign exchange. The number of units which could supply exports increased to more than 700. A group of export-oriented enterprises gradually emerged.

During the Seventh Five-Year Plan, Yunnan's border trade developed rapidly. Yunnan Province has made breakthroughs in economic and trade cooperation with neighboring countries. Its trade with Laos and Burma has developed from the border fairs and small-scale trade of the past to diversified forms of trade—including regional trade, entrepot trade, and project contracts, labor cooperation, and joint ventures. In 1989, delegations from the Yunnan provincial government visited Burma, Thailand, and Laos, and signed 33 agreements. Most of the agreements are now being implemented. Some of the notable ones are developing the waterway in the Lancang Jiang—the Mekong River—and using the deep-water port in Rangoon. Both of them have finished the field investigation and trial voyages. Yunnan also held an automobile sale exhibition in Laos and participated in the comprehensive fair held at the Taluan Festival. All these activities have expanded the influence and market for Yunnan's products. The Yunnan Import and Export Company cooperated with Laos and set up the New Asia International Trade Company in Vientiane. The Yunnan International Economic and Technological Cooperation Company also opened an office in Laos. Some cooperative projects with Burma are now in the inspection and negotiation process.

The first year to practice the new foreign trade system is 1991. The goals of Yunnan's foreign trade work are very clear. These goals are as follows: Yunnan will implement the central government's policies, combining them with Yunnan's actual situation. The focus will be on raising export quality and on economic results. Yunnan will actively adjust its export product structure, increase the proportion of highly refined products, try to improve the administration and management of foreign-trade enterprises, and further perfect the foreign-trade responsibility system. Yunnan will support export production and strive to increase exports this year. Governments at all levels will strive to further open to Southeast and

South Asian countries and to make Yunnan into a window in southwest China that opens to the outside world.

### Shanghai Vice Mayor Views Foreign Investment Guidelines

91CE0496B Shanghai JIEFANG RIBAO in Chinese  
11 Mar 91 p 1

[Article by reporter Jiang Xinhe (5592 1800 0735): "Huang Ju (7806 5468) Declared at the Guide To Foreign Investments News Conference: Shanghai Will Utilize Its Foreign Investments Even More Efficiently—the Municipality Announced Its Encouragements, Restrictions, and Prohibitions Pertaining To Foreign Investments on 10 March"]

[Text] "Utilize foreign investments even more efficiently, open up even more international markets, and let even more of Shanghai's products compete in the international markets—this is the important task as Shanghai further develops its externally oriented economy," Vice Mayor Huang Ju said at the "News Conference on Shanghai Municipality's 1991 Guide To Foreign Investments in a List of Industries and Products."

Huang Ju said, the Eighth Five-Year Plan which begins this year, has given Shanghai some new tasks as the municipality further opens up. For this reason, we must further improve Shanghai's investment environment, especially the intangible environment. We must satisfy the demands of international practices and strive to make things convenient for the foreign investors. To further enhance the functions of the Foreign Investment Committee, not only must we streamline procedure by requiring only "one stamp" at the project examination and approval phase, but we should do the same at the construction phase. Last year, a foreign businessman compared the complicated procedures during the construction phase to finding oneself in a "black box" and not knowing when one would see the light of day again. Mayor Zhu Rongji [2612 6954 1015] is especially concerned, and a specialized department is investigating this matter. Bold and resolute measures will be taken to deal with this issue thoroughly.

Huang Ju said that we must let entrepreneurs around the world know about the services Shanghai provides and change the current practice of serving only those foreign investors who knock on our doors. On the one hand, we must fully utilize Shanghai's overseas economic and trade organizations to promote Shanghai and at the same time open a few more windows abroad. On the other hand, we must organize delegations to go overseas to open more doors.

At the news conference, Huang Ju announced that in order to integrate even better the development of Pudong and efforts to utilize foreign investments properly, the municipal government has decided to appoint Yang Changji [2799 2490 1015], director of Shanghai's Pudong Development Office, to serve concurrently as

vice chairman of the municipality's Foreign Economic and Trade Commission and vice chairman of the Standing Committee of the Foreign Investment Committee, and together with Ye Longfei [0673 7893 5777], Yang will be in charge of the Foreign Investment Committee's everyday operation.

In introducing "Shanghai Municipality's 1991 Guide To Foreign Investments In a List of Industries and Products," Ye Longfei, vice chairman of the Standing Committee of Shanghai's Foreign Investment Committee, said that in response to the need to actively readjust the secondary industry, steadily improve agriculture and other sectors in the primary industry, vigorously develop the tertiary industry, and accelerate the readjustment of the industrial structure, Shanghai has prepared a list of industries and products which foreign businesses are encouraged to invest in. In principle, Shanghai encourages (a) the bringing in of advanced technologies to speed up the advancement of its industrial and agricultural production technologies, promote its current enterprise technological transformation, upgrade the products, and increase the number of export projects which earn foreign exchange; (b) new technologies, new equipment, new materials, and new products which China has not yet developed nor is producing at this time but which are in demand in the domestic and foreign markets; (c) production-oriented projects which may require the import of major raw materials but lets all or most of the finished goods to be exported; (d) industrial projects that use new technologies and new equipment and integrate the use of natural and reproduced resources; (e) technologically advanced projects which can improve product performance, reduce consumption, increase productive capacity, and improve economic efficiency; (f) projects which facilitate the development of the new Pudong Zone and the construction of the city's infrastructure. Shanghai especially encourages investments in nine separate industries and more than 200 products, including the machinery and electrical industry's machine tools for punching and cutting, the instrument and electronic industry's recording instrument, commercial pulp-making in the light industry, print and dye and subsequent processing of textile goods in the textile industry, and PVC processing and additives in the chemical industry.

In principle, the following foreign investments are restricted: (a) advanced technologies China has already developed or has already brought in and has the productive capacity to satisfy domestic market needs; (b) projects that consume a lot of energy and produce goods which are not competitive, projects that cannot balance their own foreign exchange income and expenditure, or simple assembly-type work in which the end products cannot be exported; (c) projects which compete with the municipality's existing export goods for raw materials, source of goods, and marketing channels. Investments in nearly 60 industries and products are being restricted. They include BIAOZHUNJIAN, cable and wire, rubber-ball type goods, tennis shoes, wool and textile goods, acrylic wallpaper, and foodstuff.

Foreign businesses are banned from certain undertakings such as projects in which the three kinds of industrial wastes cannot be disposed of without violating environmental protection regulations or polluting the environment, news publication, radio and TV broadcast, post and telecommunications, foreign trade, domestic commerce and related industries, insurance and related industries, and projects relating to national security.

There are more than 20 nonproductive type projects which in principle the municipality is no longer participating in at this time. They include hotels, apartments, office buildings, beauty salons, karaoke, massage parlors, information and consultation, entertainment, medical and health care, project contracting, communications and transportation.

Ye Longfei said that faced with the changing international and domestic markets, there is room for flexibility with respect to specific projects, especially if they have to do with investments in Pudong's tertiary industry.

At the news conference, Shen Beizhang [3088 5926 4545], chairman of Shanghai's Foreign Economic Relations and Trade Commission, was also present to talk about Shanghai's foreign trade development.

#### Trade With Central, South America Increases in 1990

91CE0491C Beijing GUOJI SHANGBAO in Chinese  
26 Mar 91 p 3

[Article by Chen Yin (7115 0936): "Trade With Central and South America Sees a Large Increase"]

[Text] Last year China's total volume of imports and exports with Central and South American countries amounted to \$211.32 billion, an increase of 9.8 percent over the \$192.49 billion in trade in 1989. Of this amount, the export volume increased from \$111.2 billion to \$118.76 billion, up 6.8 percent. The import volume increased from \$87.29 billion to \$92.56 billion, an increase of 13.9 percent. The trade surplus fell from \$29.6 billion to \$26.2 billion.

The outstanding characteristic of foreign trade with Central and South American countries in 1990 was that the prices of most items—except oil—declined in the international market. The Persian Gulf crisis made non-oil producing countries, such as Brazil, face a difficult foreign-trade environment.

Last year the export volume of oil-producing countries in Central and South America equalled \$57.21 billion, an increase of 11.8 percent. Their import volume reached \$47 billion, an increase of 18.4 percent. The export volume of non-oil producing countries was \$61.55 billion, a decrease of 2 percent. Their import volume reached \$45.6 billion, an increase of 9.5 percent. Of this, Brazil's export volume was \$30.5 billion, a decrease of 11.4 percent compared to a volume of \$34.4 billion in 1989. Its import volume amounted to \$20 billion, an



increase of 9.3 percent over a volume of \$18.3 billion in 1989. Its trade surplus declined from \$16.1 billion in 1989 to \$10.5 billion in 1990.

### **MOFERT Official Discusses Kuwaiti Labor Market Prospects**

91CE0496A Beijing GUOJI SHANGBAO in Chinese  
16 Mar 91 p 1

[Article by reporter Zhong Shengli (6988 0524 0448): "Improve Organization and Coordination: Returning To the Kuwaiti and Middle East Contractors' Markets—An Interview With Chen Yongcai (7115 3057 2088), Director of MOFERT's Foreign Economic Cooperation Department"]

[Text] Now that the Gulf war is over, Kuwait and Iraq are launching massive efforts to heal the wounds of war, and contractors from around the world are once again turning their attention to these two nations and other Middle East markets. What opportunities will this open up for China? How should we get back into the Kuwaiti and other Middle East contractors' markets? Recently, this reporter took these questions to Chen Yongcai, director of MOFERT's Foreign Economic Cooperation Department.

According to Chen Yongcai, China's foreign contracting and labor cooperation operations began in 1978, and the Middle East was where it all started. By last year, China has signed labor contracts with Kuwait, Iraq, Jordan, Iran, the United Arab Emirates, Yemen, Oman, Bahrain and so on, and we have been involved in a wide range of projects, including work in the chemical industry, highway and bridge constructions, telephone, public utilities, and civilian construction projects. In the last few years, labor contracts with the Middle East nations have accounted for nearly one-tenth of the value of all of our foreign labor contracts, and just before the war, contracts with Iraq were worth as much as \$1.9 billion and those with Kuwait were worth in excess of \$500 million.

In discussing China's return to the Kuwaiti and the Middle East markets, Chen Yongcai said, despite the very complicated international relations and constraints and the intense competition, China has its advantages and is full of confidence about returning to the markets in this region. He said, first, during the entire Gulf crisis, the Chinese Government has taken a firm stand and has upheld justice, creating a good impression among the Middle East nations. This is the most important factor in our favor when we return to the Middle East markets. Second, before the war, China already had a friendly relationship of trust and cooperation with the Middle East nations, including Kuwait and Iraq, and had been especially successful in the area of labor contracts and cooperation. We have a solid foundation. Third, during the many years we worked together, China has always delivered quality work and guaranteed on-time work

completion, and our technicians and laborers are disciplined, well-trained, and hard-working, and that is why we have a fine reputation among the local governments, business owners, and citizens. Lastly, China is capable of undertaking all facets of design and construction of the engineering projects Kuwait and Iraq may need to heal the wounds inflicted by the war, and we can work on a wide range of cooperative projects. We are fully prepared ideologically and in every other way.

Chen Yongcai said that in returning to the Kuwaiti and other Middle East markets, China is especially interested in, and is quite capable of handling, jobs relating to the petroleum and chemical industries, fire-fighting, cleaning up the Gulf, clearing mines, and building highways, bridges, airports, harbors and other infrastructure. We are interested in and are ready to resume civilian construction projects and are also interested in sending senior engineers, enterprise management personnel, doctors, technicians, and other service personnel to the area. The cooperation can take different forms. We can work with European and U.S. companies and companies from a third country, subcontract certain projects, or serve as prime contractor, and we can perform feasibility studies or provide materials, technologies, equipment, and so on, for those nations. Besides helping the Kuwaitis to rebuild their homeland, China will also try to develop Saudi Arabia into a major market. China has just sent a delegation to Saudi Arabia to exchange ideas on the cooperation issue, and meanwhile, we will work hard on opening up the markets in Iran, the United Arab Emirates and other nations.

Chen Yongcai pointed out that China must proceed with caution when returning to Kuwait and the Middle East markets. We must emphasize centralized organization and management and avoid rushing headlong into mass action, reckless development, and cutthroat competition among ourselves. In principle, in returning to Kuwait and the Middle East markets, the state will give preference to approving and supporting those companies which had a solid foundation in the region before the war, which have been in the business for some time, and which have established a good reputation. Other companies wishing to enter the Middle East markets for the first time may do so only after formal examination and approval by MOFERT, and the latter also intends to apply even stricter control over prices so as to achieve better economic efficiency.

### **Volume of Exports to Japan Increasing**

91CE0491A Beijing GUOJI SHANGBAO in Chinese  
26 Mar 91 p 3

[Article by Chen Sigang (7115 1735 9464): "China Gradually Increases Exports to Japan in Recent Years; Many Commodities Well Received in Japan"]

[Text] According to trade statistics published by Japan's Ministry of Finance on 2 February 1991, the volume of imports and exports between Japan and China in 1990

amounted to \$18.18 billion, a decline of 7.5 percent compared to a volume of \$19.66 billion in 1989. However, exports from China to Japan showed a tendency to rise in recent years. In 1986, the China's volume of exports to Japan equalled \$5.65 billion. In 1987 it was \$7.4 billion; in 1988 it was \$9.86 billion; in 1989 it was \$11.15 billion; and in 1990 it was \$12.05 billion.

In 1990, China's exports of food stuffs to Japan came to \$1.935 billion, equal to 99.1 percent of food exports in 1989. Exports of raw materials equalled \$1.087 billion, 80.5 percent of 1989's level. Exports of mineral fuels equalled \$2.912 billion, equal to 138.8 percent of 1989's level. Clothing exports reached \$2.388 billion, equal to 108.2 percent of 1989's level. Exports of metal minerals came to \$156 million, equal to 107.8 percent of the level in 1989. Exports of metal and manufactured metal products amounted to \$558 million, or 117.3 percent of 1989's level.

In 1989, the total volume of Japanese imports and exports was \$486 billion: exports equalled \$275.2 billion while imports equalled \$210.8 billion. Although China exports quite a few items to Japan, China's share of the total volume of Japan's foreign trade is very small, and has been growing even smaller. Take exports of cotton yarn to Japan for an example: China exported 157,000 pieces in 1988 and 112,000 pieces in 1989, a decrease of 28 percent. The major problems with China's exports of cotton yarn to Japan involve weak yarn intensity, which causes many broken ends; too many varieties in length among different bobbins (too many differences in weight); uneven strips; too many defects; and imperfect shaping. The major problems with China's exports of cotton cloth to Japan include defects in weft; cotton impurities, which make too many "white stars" after dyeing; too many knotted yarns; and too many defective yarns. Keiichi Jinbo, deputy director of the Japanese Fiber Import Association, said the value was \$11.15 billion, accounting for 1/20 of Japan's imports [as published]. It is thus evident that the volume of Chinese exports in the Japanese market is negligible.

Many products made in China are very popular on the Japanese market. For instance, Chinese textile products occupy certain markets in Japan. In 1990, Japan imported \$11.5 billion worth of raw textiles, silk products, and highly refined products. It is estimated that this figure will be \$13 billion in 1991. Regarding current South Korean imports, Japanese customers have more rigid standards towards textile products. Compared with European or U.S. customers, the Japanese seems picky. They hope Chinese enterprises will pay attention to product quality—beginning with the choice of raw materials—and to export products that require secondary processing. Only in this way can Chinese textile products maintain and expand their ground in the Japanese market.

Japan is a country of high incomes and high consumption. Generally speaking, Japan has relatively high requirements for product quality. Product prices are

only a secondary concern. Take clothes for example: a high-quality suit made in China can sell for about 10,000 yen each. However, using the same materials, a Sino-Japanese joint venture can produce higher quality suits with fancy packing cases that sell from 20,000 to 30,000 yen each. The selling price is doubled, yet Japanese consumers are willing to buy them.

In Japan, there are many Chinese restaurants. It is easy to see signs that say "Chinese cooking" everywhere. A course of assorted noodles can sell for between 850 and 1,300 yen. Chinese food is much less expensive than comparable Japanese food. Because the Japanese like Chinese food, there is a great potential for Chinese food products to expand into the Japanese market. Currently, the quantity of Chinese food products exported to Japan is still small. Japanese friends indicate that as long Chinese food products can meet Japan's strict hygienic standards, and as long as packing quality is improved, Chinese food products will be very marketable and their export to the Japanese market can be expanded.

Each year Japan imports 120 million tons of coal. China exports 4 million tons of coal to Japan annually, which is only one-thirtieth of Japan's coal imports. China is first in the world for coal output, and it is very rich in coal. The potential for expanding coal export is very great. According to Japanese friends, Japan also has a big demand for corn. Because problems with importing corn from the United States cannot be resolved at present, Japan is hoping to import corn from China.

In summary, there is a great potential for Chinese products in Japan. The key point is that we must improve product quality and constantly develop new, high-quality exports. For this purpose, we must earnestly implement "the commodity examination law" and enhance commodity inspections at every level and in every production chain. We must start by choosing raw materials and paying attention to design, production, and product processing. In the meantime, we must properly examine product packing. We must strengthen the registration and management of enterprises engaged in producing exports. We must hasten construction of the base for producing export commodities. We must also develop and support more high-quality, name-brand products for entry into the Japanese market.

### Shanghai Continues To Attract Foreign Investment

OW3003184491 Beijing XINHUA in English  
1606 GMT 30 Mar 91

[Text] Shanghai, March 30 (XINHUA)—Shanghai city approved 70 foreign-funded projects, involving investments in excess of 61 million U.S. dollars, during the first three months of this year.

The figures represent a 70 percent increase in the number of projects approved and a 66 percent increase in investment over last year's same period.

Yang Quanyi, a senior engineer with the Shanghai Municipal Committee for Foreign Investment, said that of the 70 new projects, 68 are related to industrial production and involve investments of 57.86 million U.S. dollars.

Sixteen of the projects are solely foreign funded.

Statistics show that the 201 foreign funded projects Shanghai ratified during 1990 involved contracted foreign investment in excess of 374 million U.S. dollars.

By the end of last year the city had approved 910 projects, with contracted foreign investments totaling 2.85 billion U.S. dollars. The investments came from 22 countries and regions.

Three-fourths of the 910 foreign funded projects are related to industry.

### 1990 Border Trade Exceeds \$1 Billion

HK0404153491 Beijing ZHONGGUO XINWEN SHE  
in English 1421 GMT 4 Apr 91

["China's Border Trade Last Year Totalled Over U.S.\$1 Billion"—ZHONGGUO XINWEN SHE headline]

[Text] Beijing, April 4 (CNS)—China's total border trade value last year was more than U.S.\$1 billion, a sum equivalent to the total foreign exchange earned by the exports of three to four medium-sized border provinces and regions for a whole year, according to incomplete statistics.

China's inland border runs for a total of 22,000 kilometres, 19,000 kilometres of which involves regions inhabited by ethnic minorities. There are more than thirty minority nationalities in these parts sharing a border with the same races of people of neighbouring countries. They have close economic links and have traded since ancient times. The inland border trade has been growing during the past decade's implementation of the strategic coastal open policy.

Most of the neighbouring countries bordering China's inland are developing countries. There exists a strong complementary demand for products between China and these bordering countries. China's export commodities, especially daily necessities, have strong markets in these countries. Export items include light industrial products, textiles, clothing, general merchandise and hardware. China's imports from these countries include steel materials, timber, chemical fertilizer, cement, gemstones and rubber.

## ECONOMIC ZONES

### Shenzhen Municipal Plan Still Under Study

HK0104025291 Hong Kong HONGKONG STANDARD  
in English 1 Apr 91 p 5

[By Cheung Po-ling in Beijing]

[Text] The Shenzhen municipal government will take another year or two to implement the "opening of the first border and managing well the second border," said Li Hao, the Shenzhen Municipal Committee Party Secretary.

Mr Li, who is attending the ongoing session of the National People's Congress, said in Beijing yesterday that the municipal government was actively mapping out details of the plan.

He said the plan had yet to be discussed with the Hong Kong Government.

"The plan is being thrashed out by our municipal government and the State Council and will take another year or two before it can be executed," he said.

The aim of the plan is to perfect the management of the Shenzhen special economic zone's first and second borders and turn the town into a tax-free zone like Hong Kong.

Mr Li said he believed such a policy would be conducive to the reform policy of the region.

According to the party secretary, who is in charge of the plan, goods vehicles from Hong Kong would be exempted from examination when they enter Shenzhen.

"Apart from several items, consumer goods and electrical appliances brought in by Hong Kong travellers would also be exempt from tax under the plan," he said.

At present, drivers of goods vehicles from Hong Kong have to produce their permits before they can enter Shenzhen.

The proposed change would facilitate the flow of goods into Shenzhen.

A special entry permit will be issued to Hong Kong residents who will be able to enter the zone without having to fill out forms.

"We are also thinking of increasing the number of entry and exit channels at the border and further speed up the computerisation of border management," Mr Li said.

He said the opening of the first border would curb smuggling activities because the move would put an end to the present tax differential between China and Hong Kong.

However, he said the change would not lead to an exodus of mainlanders to Hong Kong.

Although the plan would reduce the revenue of the municipal government, Mr Li said he believed the scheme would promote the economic development of both sides.

**Hainan Attracts Domestic, Foreign Investment**

OW0504084791 Beijing XINHUA in English  
0800 GMT 5 Apr 91

[Text] Beijing, April 5 (XINHUA)—Increasing numbers of domestic and overseas firms are visiting south China's Hainan Province seeking opportunities for investment.

The Overseas Edition of the PEOPLE'S DAILY reported today that the province's Chengmai County Industrial Development Zone signed nine joint venture and co-operation contracts during the first three months of this year. The ventures involved domestic investments of over 22 million yuan (four million U.S. dollars) and foreign funds of slightly over 2.2 million U.S. dollars.

The Jinpan Industrial Development Zone hosted 23 groups who had visited the zone to investigate investment opportunities. Agreements in the form of joint ventures or other co-operative ventures were concluded on eight industrial projects. The eight projects required a contracted investment of 17.59 million U.S. dollars in foreign funding and 18.92 million yuan (four million U.S. dollars) in domestic funding.

The Qinglan Port Economic Development Zone, which was initially established for the specific purpose of using investments from Taiwan, has received more than 300 business and industrial delegations from Taiwan, Thailand, Singapore and Japan. To date, 36 projects are either under construction or have begun production.

Provincial statistics show that between January and March this year the four development zones in Haikou, the provincial capital, had signed 20 contracts and 15 letters of intent for co-operative projects.

Hainan, China's newest province, is expending great effort to improve its investment environment by construction or expanding its water supply, electricity, telecommunications and transport facilities.

**LABOR****Employment Policies During Eighth Five-Year Plan**

91CE0458A Beijing ZHONGGUO TIZHI GAIGE  
[CHINA'S ECONOMIC STRUCTURE REFORM]  
in Chinese No 1, 23 Jan 91 pp 28-29

[Article by Xu Dong (6079 2639): "Strategies and Reflections on Employment in Cities and Towns During the Eighth Five-Year Plan"]

[Text] The problem of employment in cities and towns reached its peak and then eased during the Sixth and Seventh Five-Year Plans. The pressures from unemployment and the unemployment rate will rise again in the Eighth Five-Year Plan. The supply of labor resources will increase while demand will shrink. The steady increase in the potential labor force and closures or temporary shutdowns in production will create new

employment difficulties. The employment situation facing cities and towns is severe. There have to be breakthroughs in major strategic policies, making enhancing reform of the employment system the starting point.

**The Employment System**

During the Eighth Five-Year Plan, we should establish an employment system that focuses on the state's planned management while adding in non-governmental cooperation, and that focuses on the state assigning jobs while adding in individual job hunting. Our reference to planned management and state job assignments does not mean that the government will be totally responsible for job assignments, as it was in the past; it simply means that this is a basic, conditional premise for resolving social employment. The concept of non-governmental cooperation and individual job hunting means that the state formulates employment plans, regulations, and policies, which are then implemented by enterprises, workers, and civil society in order to fully use the various forces in society. Thus, after the state has set up employment policies and plans, the actual practices in the employment process—such as raising funds to create jobs—will be freely carried out by society.

In enterprises, reform of the labor system should focus upon further reforms of the life-time job system, transforming it into a contract relationship between workers and enterprises, and changing the direct state control of the labor system into indirect state regulation and control and direct management by enterprises.

At the same time, we should establish and perfect the social insurance system for unemployment as soon as possible, and pass laws mandating ways to collect and use unemployment insurance funds. We will open up the labor market, with specialized agencies responsible for managing, training, and placing the unemployed in jobs. Within the scope of the state's macroeconomic policies, we must enable enterprises and the labor force to choose each other, in order to find the best match between the means of production and the labor force.

**The Employment Structure**

In terms of the ownership of the means of production, an outstanding characteristic of the employment structure in cities and towns is that a much higher proportion of the labor force (about 70 percent) is employed in state-owned units, and a much lower proportion of the labor force is employed in units that have other forms of ownership.

Looking at employment in different industries, there is a much higher proportion of the labor force in secondary industries, especially in industrial manufacturing, and a lower proportion in tertiary industries—the proportion in the financial, insurance, public utilities, transportation, and postal service areas is even smaller.

In terms of the occupational structures in cities and towns, workers account for 57.1 percent of the country's non-agricultural population, higher than the average in other countries, while service workers account for a smaller percentage.

Consequently, we should generally restrain blind increases in employment in state-owned units and in industrial manufacturing enterprises. The new labor force should mainly go into collectively owned units, service industries, and non-production occupations. It should be noted that there is a great potential for increasing employment by adjusting the occupational structures in cities and towns. Estimates are that by the year 2000, if the ratio between industrial employment and other employment could fall to about what it was in the 1950's (about 35:65), other work areas might generate about 4 million jobs, even if city and town industries do not increase their employment.

#### Employment Policies

Governments at all levels should consider the country's labor force to be a huge source for the forces of production or an industry to be tapped and used, switching from passively assigning jobs to actively exploiting the labor force. This should be one of our basic national policies, to be included in the general plan for social and economic development and reform. Presently, we should try to expand the job market by mobilizing multiple resources for positive action and providing more job opportunities. We should also strictly control the total supply of labor to alleviate the contradiction between job availability and employment.

—We must sternly restrict the flow of labor from rural areas to cities and towns. The state has included in its national economic and social development plan the policy of "changing a person's status from agricultural to non-agricultural" through unified administration. In order to strengthen the management of peasants working in urban areas, we will more tightly control endorsements for employing peasants, using a system of work permits and collecting city entrance fees. Meanwhile, governments and other industries should increase investments in agriculture, encouraging peasants to develop and exploit the agricultural, forestry, poultry, and fishing industries, and to provide services before and after production. In addition, we should carry out the policy of "regulation, rectification, transformation, and upgrading" to help develop township enterprises and increase rural areas' capacity to absorb the labor force.

—We must implement a flexible work system as soon as possible. Such a system may not only give employees more leisure time, but it may also raise productivity and provide new jobs. First, we could shorten work time. The system could be set up in accordance with the characteristics of different occupations. In due time, we could implement a system of five-day work weeks or six-hour work days. Second, the age for

employment may be raised, severely restricting child labor. By implementing 10-year, compulsory education, we may implement a system that requires a high-school education or its equivalent for employment in large- and medium-sized cities—where conditions allow. Third, we may introduce a phased employment system for women. Because of the low level of socialization in housework at the present stage, women are taking more responsibility for raising children and house work. In order to reduce women's burdens, it is reasonable to have a phased work system for women.

—We will exercise reasonable control over re-employment of the retired, and will encourage retirees to work in township enterprises or private enterprises.

—We will support the collective and cooperative economy, and encourage and direct the healthy development of the individual and private economy, so as to expand the job market.

—We will take measures to actively expand labor exports.

#### Organizing and Managing Employment

We must change the basic way of thinking about the government's function of being in charge of employment. First, we should further substantiate and strengthen the government department that administers labor employment by increasing all types of specialized personnel. Second, we should effectively transform the function of government employment departments from simply filling employment quotas and allocating jobs to the higher function of focusing on investigation and research, formulating employment regulations and policies based on scientific predictions, and directing and regulating employment behavior in society. Third, we should strengthen the connections and coordination between the government and non-governmental units, and between departments within the government. We should establish city and town employment regulation committees to advise the government and be the link between the supply and demand for labor. Such committees will be headed by the government planning commission (or the labor and personnel departments), and their membership will include other relevant departments, representatives from various circles, and enterprise representatives.

Insufficient funds have been a chronic problem for the national economy and city and town employment. We must set up a national employment fund. The sources of the fund may come partly from government revenues, but the major portion has to be raised by society. With money from enterprises, service organizations, and employees, it is very likely that we can raise a certain amount of money for the fund.

### Articles Discuss Enterprise Groups

91CE0443B Beijing JINGJI RIBAO in Chinese  
12 Mar 91

[Article by Zheng Hongqing (6774 3163 1987): "Three Comments on Enterprise Groups"]

#### [Text] I. Enterprise Groups and Competition

The organization and establishment of groups of large-sized enterprises concentrates the factors of production. Would this consequently give rise to a monopoly, suffocating competition and impairing economic activity? This issue cannot be generalized; an analysis based on specific circumstances is needed.

First of all, Chinese industries have long faced the main problems of excessively dispersed production, a small average enterprise scale, and an extremely low degree of socialization. The immediate task is to promote integration, enhance the concentration of production, and restrain excessive and disorderly competition so as to achieve returns to scale. As for monopoly, it is not a real problem in the short term. Also, the formation of a monopoly is closely related to the market capacity. China's cities and towns have extensive markets, and they are in a stage of rapid expansion, which makes it possible to accommodate the existence of a fairly large number of large enterprises or enterprise groups, and economies of scale and competition can coexist. Furthermore, an important implication of a monopoly is the erection of market barriers to block competitors from entering the market, whereas the segmentation under the existing system is actually monopolistic behavior based on administrative authority. In contrast, the establishment of large enterprise groups and their open operating methods rightly seeks to overcome the boundaries of localities, trades, or ownership, break the administrative monopoly, and facilitate the birth of a unified domestic market. Another important point is that the development of enterprise groups is set against the overall background of opening to the outside world. A viable enterprise group will try its best to seek externally oriented development and grow stronger amid competition in the international market.

The above analysis demonstrates that the development of enterprise groups will not generally lead to a serious monopoly situation. This does not mean, however, that enterprise groups' activities cannot lead to any contradictions with market competition. In particular, those sectors that are technology-intensive, have highly developed organizations, and have little product differentiation could very possibly lead to a serious monopoly if not dealt with carefully. In order to prevent such an occurrence, the following points should be kept in mind.

Enterprise groups should be a collection of several economic entities that are linked by economic interests, centered around key enterprises, and integrated to different degrees, rather than being a single economic entity

that is just an enterprise-like company. Member enterprises within a group should conduct comprehensive planning, coordinate operations, and share benefits and risks. They should also maintain a certain relationship between commodity exchange and competition, practice differentiated management and accounting at different levels, and refrain from eating "out of the same big pot" and being separated from the market. This will help in overcoming "big-company diseases," such as rigidity, stagnation, and bureaucracy, and it will fill the entire group with strong vitality.

In general, it is not appropriate to have a single dominant enterprise group in one trade. A better approach is to organize several large groups that are on an equal footing by integrating relevant enterprises centered around large enterprises located in different regions. Then they should promote "monopolistic competition" among themselves which takes place on a larger, more extensive scale and at a much higher level.

We should continue opening to the outside world, with a view to pushing enterprise groups into the fiercely competitive international market. Enterprise groups should not depend entirely on the domestic market for their supplies of raw materials or for marketing. They should be forced to utilize their overall advantages in products, technology, capital, and information to occupy international markets. A few giant groups, equipped with strong resources and comprehensive production, scientific research, trade, financing, and service functions, should aim at becoming multinational corporations, actively covering their ground overseas and gradually growing into a Chinese version of General Electric or Sony.

Such multi-level and multi-directional competition among member enterprises within a group, among enterprise groups, and in the international market can not only completely prevent the emergence of a transitional monopoly, but it can also produce the dual benefits of economies of scale and market competition.

#### II. Enterprise Groups and Government

Presently, the Chinese economic system is still in a state of transition towards the new system of a planned commodity economy. Various relationships have not yet been rationalized. On the one hand, we must break convention and employ government force to bring about the birth of enterprise groups. On the other hand, the emergence of trans-regional and trans-departmental enterprise groups will also place new requirements on the government with respect to existing methods of economic management and coordination. In these circumstances, it may be more appropriate to summarize available reform experiences and adopt the practice of being an "individual planning unit and having overall contracting of assets" in the near term as the basic form for handling the relationship between the state and enterprise groups.

Being an individual planning unit means that all central layers and member enterprises that entered the group

have to cut their connections with the government departments that previously managed them. They must form an independent planning and management unit to be listed separately in the government plan at the appropriate level, so that budgeted funds and material supplies are channeled directly to the enterprise group, delegated planning authorities are transferred to the group, and the government's planned targets or orders are sent directly to the group. This will eliminate all intermediate layers, so that enterprise groups can largely avoid excessive administrative intervention and have a lot of room to operate autonomously, thereby effectively lowering the cost of planned management.

In accordance with being an individual planning unit, we could contemplate an overall contract of assets between the state and enterprise groups which dealt with the relationship in the allocation of interests. That is to say, in the name of state ownership, the government signs contracts with an enterprise group, authorizing the latter to operate assets that are actually state-owned; the group assumes the responsibility or obligation for protecting and increasing the value of the state assets and remitting the returns on the assets to the government. The government examines only the rate of return on assets and the growth in the volume and improvement in the quality of state assets brought about by technological improvements. Decisions about daily production and operations are left entirely to the autonomy of the group. The group could extend subcontracts to member enterprises, or use other approaches that they deem appropriate.

In implementing individual planning and overall contracts for assets, almost all enterprise groups face the difficult task of upgrading equipment, transforming technologies, and developing new products, which are the lifelines that determine a group's fate. Given the premise of an improved auditing and accounting system and guaranteed directions of resource deployment, it is necessary to let enterprise groups appropriately retain more profits through such methods as expediting depreciation and allowing additional retention of funds for development. Moreover, there is proof that autonomous investments of enterprise groups are often more efficient than planned and targeted investments.

There is another point to keep in mind. The phenomenon of "the government acting as an enterprise" should be overcome; likewise, the phenomenon of "enterprises acting as a government" should also be prevented. The main link binding member enterprises together is the relationship of property and economic interests, rather than vertical, administrative relationships. Member enterprises should retain their legal person status outside the group organization. If we depart from this principle, enterprise groups would likely be transformed into the equivalent of a managing department or government administrative company, thus losing their character and vitality.

### III. Enterprise Groups and the Share-holding System

Large enterprise groups have complex internal and external relationships, and they have a strong tendency to expand in many dimensions. The organizational and operational form that is consistent with their special characteristics is the share-holding system. There are several reasons for this. First, only assets can link member enterprises together through a common fate, and the share-holding system is the form in which property rights and interest allocations of share-holders within a group are realized. Second, the share-holding system separates the existing state ownership into ultimate state ownership and enterprises' legal-person ownership, which lays the legal foundation for the separation of enterprises and government. Third, the share-holding system opens a direct financing channel for enterprise groups. This enables them to raise large amounts of long-term funds—needed for improving technology and equipment and for expanding production and operations—by issuing and transferring shares. Fourth, the share-holding system makes it easy for enterprise groups to utilize capital markets to optimize and rearrange their factors of production from time to time; to enter new economic fields; to develop diversified operations; and to maintain flexibility and openness in the group structure. Fifth, the share-holding system could take the form of stock investments, so that foreign capital may be raised on a much larger scale. This would deepen Sino-foreign economic and technological cooperation.

Under the system of overall contracting for assets discussed before, the state treats enterprise groups as agents of state property rights; it entrusts them to exercise the duties of the owners and to be responsible for administering state assets. This implies that the government has moved from production management to asset management when dealing with enterprise groups, thus providing a sound basis for the groups to shift towards a share-holding system.

The establishment of enterprise groups under the share-holding system needs time to make the transition from the preliminary to the mature stage. The first step is to examine and appraise the volume of assets of the one or several large, key enterprises that serve as the group's core, and turn their assets back over to the group, thus forming a group core that integrates assets and operations. Other enterprises may invest in shares using all or part of their assets, and can become legal share holders. At this point the stocks would not to be issued to the public or to society, and would not circulate in the market. The situation would be similar to having a limited number of share holders form a limited liability company. Enterprise groups would adopt a system in which the general manager is responsible for the enterprise, and he is under the direction of board of directors. The second step is for qualified enterprise groups to publicly issue stocks to society in accordance with relevant state regulations. In China's specific circumstances, most stocks are to be held by governments at different levels or in different localities; by wholly or primarily



publicly owned legal enterprises; by various social insurance funds; and by other publicly owned, institutional legal persons. The proportion of ordinary people holding shares will not be large. Some enterprises may allow foreign investors to hold shares. Based on its strong investment resources, a group may control or hold stocks belonging to member enterprises, and member enterprises may hold each other's stocks. The third step will occur when the enterprise group's share-holding system is relatively mature. A large-sized enterprise group will enter the securities market in the name of a holding company, and operate by using its assets as capital. Some groups may list their stocks overseas or invest in stocks overseas. Enterprise groups' operations will then move in the direction of diversification and internationalization.

### Article Reports on Enterprises' Hidden Losses

91CE0443A Beijing JINGJI RIBAO in Chinese  
13 Mar 91

[Article by Journalist Dong Liguo (5516 4539 0948): "A Big Hole under the Pagoda-An Investigation of the Problem of Enterprises' Hidden Losses"]

[Text] Enterprises' hidden losses are increasing under the cover of bank loans, and the problem of falling economic efficiency has become serious, affecting the stable growth of the economy. An investigation conducted by relevant departments that looked into 25 state-owned enterprises holding accounts with the Industrial and Commercial Bank in Shijiazhuang showed that in 1990 these enterprises' hidden losses amounted to 158.74 million yuan, 2.7 times the losses posted on the books. These hidden losses, plus non-reimbursable losses worth 64.09 million yuan (including those from the preceding year), resulted in total losses of 222.83 million yuan, equivalent to 2.9 times their working capital and 38 percent of their working capital loans. The investigation showed that more than one-third of the loans were diverted from productive circulation and were used for fiscal expenditures.

### Forms of Hidden Losses

First, expenses to be shared by enterprises were either underpaid or not paid at all, thus superficially increasing the profits. Some enterprises used the method of paying fewer expenses in order to raise profits and fulfill assigned profit targets, or because they feared losses would affect salary increases and employee benefits. Of the 25 enterprises investigated, 10 had apportioned expenses that had not been apportioned; these expenses totalled 12.3 million yuan.

Second, a large amount of materials were scrapped or lost due to inappropriate operations or management; the materials were not reported or disposed of for a long time. Of the 25 enterprises, 10 had scrapped or lost materials worth a total value of 14.05 million yuan.

Third, the cost of overstocked, unsalable goods in inventory was greater than their selling price, implying large, hidden losses. Of the 25 enterprises, 15 had more than 10 types of products in inventory whose real costs were higher than their selling prices, implying hidden losses of 47.77 million yuan. Some enterprises refused to dispose of inventories for fear of incurring losses.

Fourth, when enterprises computed profits, they included only sales revenues and not sales costs. For instance, in order to fulfill the contract profit target, the contractor of the Hebei Monosodium Glutamate Factory discounted the factory's sales costs by 2.72 million yuan. This, combined with the cost of scrapped materials and accounts receivable made a total hidden loss of 6.34 million yuan, equivalent to 12 times its retained working capital.

Fifth, in cost accounting, raw materials that were bought at high prices were posted on the books at low prices. One tobacco factory incurred accounts receivable worth 43.61 million yuan. On the surface it appeared to generate large amounts of profits and taxes, but actually it was running a deficit.

Sixth, since there were no sources of funds, bad debts and losses, the costs of establishing new enterprise branches, and the initial costs of putting new projects into production remained on the books for a long time, becoming hidden losses. Of the 25 enterprises, 11 had this type of problem, carrying hidden losses totalling 28.84 million yuan. In addition, 19 of the 25 enterprises ran deficits in their employee welfare funds which totalled 16.94 million yuan.

### Factors Contributing to Hidden Losses

First, the enterprise responsibility systems and enterprises' contract targets are not perfect. At present, enterprises' contract targets are expressed mainly in terms of profits and taxes, and profits and taxes are tied to salaries. However, the targets for the working capital turnover rate and supplementary working capital, and guarantees that these will be completed, are not included in the contracts. Therefore, in order to protect the benefits of the enterprises and employees, enterprise contractors will try their utmost to protect profits. When they cannot fulfill the profit target, some enterprises will try to protect profits by disguising deficits and retaining an inflated amount.

Second, after the fiscal responsibilities of the state and localities were separated, localities necessarily wanted to ensure that their revenues would cover expenses, and pushed enterprises to fulfill the task of turning over funds. On the other hand, enterprises may violate accounting and cost regulations, reporting inflated profits in order to fulfill their task of turning over funds. Their wrongdoings are not checked or corrected by anyone. Some managers also ask banks to increase "target lending" to enterprises to maintain production. This method of the financial department withdrawing

blood while the banks inject it will not enhance the vitality of enterprises; it will only add to their burdens.

Third, enterprises have excessive burdens. Over the last several years, because of the sluggish market, enterprises' economic efficiency and their sources of revenues have declined. However, the number of newly created taxes and additional remittance items keep growing; enterprises cannot bear the burdens or resolve existing hidden losses. In order to ensure the various remittance items and maintain simple reproduction, enterprises are forced to take extreme measures.

Fourth, the state monopoly of the credit and funding system is one of the factors causing enterprises' hidden losses. No matter how large the funding gap becomes or how much funds are diverted and lost from enterprises, banks have to inject funds, because the enterprises are all state-owned. Otherwise the enterprises would stop operating, affecting overall stability. Since these unjustified loans cannot be stopped, enterprises' hidden losses keep growing, making it difficult to solve the problem of misappropriation of funds.

#### **Suggested Solutions to the Hidden Losses**

After investigation and study, some relevant departments believe that the problem of enterprises' hidden losses should be solved in the following way:

First, a joint organization consisting of all relevant functional departments should be established to examine and consolidate enterprises' assets. There should be a thorough, systematic investigation into the assets of state-owned and collective enterprises, in order to fully expose the operational problems these enterprises encounter. Relevant policies should be designed to enhance enterprise management and cost accounting.

Second, the policy of delegating authority to, giving profits to, and invigorating enterprises should be maintained, enabling enterprises to rehabilitate and strengthen their vitality. Only when enterprises have accumulated savings will they have the strength to adjust their product structures and improve economic efficiency.

Third, the enterprise responsibility system should be improved, and the management and use of enterprise funds should be included in the contract targets. The banking sector should participate in evaluating various enterprise contract targets and examining target fulfillment.

Fourth, the principle of separating the management and use of financial funds and credits should be maintained. This is done in order to avoid the problem of financial funds crowding out bank credit or banks printing more money, which could result in the disastrous reappearance of inflation.

Fifth, banks should regularly check and analyze the economic activities of borrowing enterprises, fully utilize

the service and monitoring roles during credit work, and help enterprises strengthen their economic accounting and management of working capital.

Sixth, reform of the financial system should be deepened, and a safety system for operating banks' credit funds should be set up. We should continue supporting specialized banks' shift towards becoming enterprises. We should also use the amount of deposits to determine the amount of loans with regard to funds utilization.

## **TRANSPORTATION**

### **Hebei Vice Governor Discusses Auto Industry**

*SK2204120191 Shijiazhuang Hebei Provincial Service  
in Mandarin 2200 GMT 20 Apr 91*

[Text] On 19 April, Cai Shiqing, president of the China National Automotive Industry Corporation, and his entourage—a total of six persons—went to Baoding to discuss with leaders of the provincial government, of concerned provincial-level departments, and of Baoding Prefecture and Baoding City, our province's development of its auto industry during the Eighth Five-Year Plan period. They also jointly discussed the major plans for developing Hebei Province's auto industry.

Vice Governor Ye Liansong stressed: The way out for developing our province's auto industry is to concentrate investment in this field, to give priority to supporting its development, to make unified planning, and to implement it in a step-by-step manner.

Cai Shiqing, president of the China National Automotive Industry Corporation; the accompanying leaders of departments concerned with the corporation; and Vice Governor Ye Liansong watched the production lines of the Huabei Automobile Body Manufacturing Plant and the Baoding Motor Plant, inspected the situation of updating equipment and developing new products, and heard briefings given by leaders of the provincial Machinery Department and the provincial automobile group company on our province's present situation in automobile industry and on our development plan during the Eighth Five-Year Plan period. They all held that Hebei has started the auto industry late but has achieved rapid development in this regard. However, the distribution of the auto industry is scattered and lacks a unified plan. This cannot form a macro-climate for mass production.

How to successfully carry out our province's auto industry? Ye Liansong gave proposals on behalf of the provincial government. He pointed out: We should concentrate investment in the auto industry, give priority to helping it, make unified planning and implement it in a step-by-step manner, and gradually shift small-scale production into large-scale production. This is the way out for invigorating the development of our province's auto industry. To this end we should give priority to supporting, in terms of policy and funds, the Baoding Motor

Plant, the Shijiazhuang Motor Plant, the Huabei Automobile Body Manufacturing Plant, and the Tangshan Geer Wheel Plant whose foundations and strength are fairly strong. Through specialized coordinated production, we should enable some leading enterprises to form a closely related association and our province's auto industry to achieve greater development during the Eighth Five-Year Plan period.

### **New Highway Transport Fees Implemented**

*HK0405040691 Beijing CHINA DAILY in English  
4 May 91 p 3*

[By staff reporter]

[Text] New guidelines on transport fares have been introduced to regulate the fees paid to millions of commercial trucks, buses and taxis.

The seven-chapter regulation, drafted by the Ministry of Communications and approved by the State Price Administration, is to help local price administrators fix highway transport fares.

The regulation, covering both passenger and freight transportation over China's one-million-kilometre highway network, took effect on Wednesday.

It also regulates urban passenger transport, such as taxis and limousines.

A ministry official said the guideline was enforced to establish a standardized highway fare structure.

She said it was the first such fare structure to take account of the vehicles' quality, road conditions and customer requirements.

However, the spokesman denied rumours that the new guideline was a prelude to a general price rise for passenger and cargo transportation.

She said the regulation did not set any specific fares, but merely stipulated how to fix transport prices.

The ministry issued a guideline in 1984 on highway transportation prices which became outdated as new types of trucks and limousines came into operation.

## **AGRICULTURE**

### **Qinghai To Expand Efforts To Develop Animal Husbandry**

*OW0905132691 Beijing XINHUA in English  
0756 GMT 9 May 91*

[Text] Xining, May 9 (XINHUA)—Northwest China's Qinghai Province will devote major efforts to developing animal husbandry during the eighth five-year plan period (1991-95).

Local officials told XINHUA that during the next five years, the province, which is one of China's five key

pastoral areas, will further implement the contract responsibility system on its grasslands and will strengthen the management and service functions of grassroots units, as well as provide mutual aid and cooperation in various forms.

At the same time, the province will encourage the application of scientific methods to livestock farming and will speed up the construction and mechanization of animal husbandry.

While strengthening construction of its grasslands and disaster-prevention bases, the province will also raise funds from various channels to advance the comprehensive development of animal husbandry.

The officials added that they would improve management and production conditions of state-owned farms, while stressing and fully enhancing their latent potential and exemplary roles.

### **Progress of Experimental Rural Reform Areas**

*91CE0455A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 9, 4 Mar 91  
pp 7-8*

[Article by Jiao Ran (3542 3544): "China's Experimental Rural Reform Areas Progress Steadily"]

[Text] While some foreigners express doubts about whether or not China is continuing to pursue reform, several dozen experimental rural reform areas scattered about China are quietly pushing reform of the rural economic system to deeper levels.

As is the case with China's comprehensive experimental reform and opening up in cities and coastal areas, the experimental rural reform areas are exploring paths for China's future reform direction.

### **Why Have Experimental Areas?**

Since 1985, China's rural reform environment and mission has been very different from the reforms of the previous stage. The primary focus of the previous stage reform was to smash the "big pot" and by means of the joint production responsibility system to establish the primary position of family management and recreate rural microeconomic organizations. This reform is fairly independent. The primary goal and mission of the new stage reform is to pave the way for various rural economic entities to become part of a commodity economy. Thus this requires establishing and consolidating an organizational system to support market operations, and establishing organizational systems in such areas as land, cooperatives, and enterprise systems to reform the various economic relationships that make up China's traditional rural society. On the other hand, it requires putting in order the price system, and correcting the contorted national income distribution system so that the price system can play a more comprehensive role. In

addition, it requires improving the macroeconomic regulation and control system and promoting reforms in the market environment in such areas as commerce, pricing, money and taxes, finance, and goods and materials the better to apply economic methods to the conduct of government management and market regulation and control functions.

Clearly, compared with the rural reforms of the first stage, the new stage reforms are much more interrelated with other sectors of the economy and face a large number of issues beyond our experience, which makes it all the more difficult. At the beginning of reform, problems of inadequate preparation of cadres, theory, ideology, and information began to emerge. Thus, whether we can minimize risk and solve problems so that reform will escape the intransigence of the new and old systems becomes an issue related to whether or not we can seize the reform initiative.

It was against this background, that early in 1987 the Central Committee of the CPC and the State Council made a resolution to establish experimental rural reform areas and use these experiments as a guide and to promote reform in different areas. The basic mission of the experimental rural reform areas is to produce experience, policy, and laws and regulations for overall reform, and through practice and trial to provide a scientific basis for central and local government policies.

#### Why Experiment?

Since 1987, China has established 22 experimental rural reform areas. These experimental areas are distributed in 17 provinces, cities and autonomous regions nationwide. The experimental areas have a total population of over 60 million people. In the past four years, these experimental areas have carried out active explorations in seven areas: the grain marketing system, the land system, establishing grassroots level cooperative economic organizations, the town and township enterprise system, the rural financing system, animal husbandry, forestry, fisheries and state-run farm systems, and organizations for comprehensive development of agriculture.

#### Experimental reform of the grain marketing system

Xinxiang City in Henan, Yulin City in Guangxi-Zhuang Autonomous Region and Meitan County in Guizhou have implemented an experimental reform of the grain marketing system. Its basic thinking is to use and improve a "dual-track system." The main method used by the experimental area in Yulin, Guangxi is to reduce sales of urban grain rations and for workers depending on the different levels of heavy labor, light labor and mental labor; change the previous "secret subsidy" into a wage subsidy depending on the number of dependents of the employee, and on this basis gradually raise the grain sale price. The accompanying measures are: to establish, on a trial basis, a specialized grain market that includes the functions of wholesale, futures, retail sales, storage, distribution, and information exchange. Last year, the Yulin experimental area's wholesale grain

market completed the first period project. Beginning on 1 July 1990, the Xinxiang experimental area completely decontrolled the prices of oil used in the pastry, brewing and beverage industries, and this year will steadily promote marketing system reform. The experiments in Xinxiang, Yulin and Meitan areas all touched on the rural agricultural tax system and urban grain ration system, which to a certain degree played a role in controlling increases in financial subsidies and increases in peasant income.

Reform of the grain marketing system cannot avoid involving the redistribution of urban interests, thus, it has almost become a "high tension line" of reform and no one dares get involved with it lightly. China is currently between a rock and a hard place in this area: if the procurement price is not increased, problems of production and purchases will be hard to solve; if prices are increased, problems of reform of the marketing system will have to be solved, otherwise the financial cost will be unbearable.

#### Experimental reform of the land system

Creating large-scale production and clarifying use rights is the basic content of land system reform. There are five experimental land system reform areas: Meitan County in Guizhou, Pingdu City in Shandong, Wuxi County, Wu County and Changshu City in Jiangsu, Shunyi County in Beijing, and Nanhai County in Guangdong. There are two types of reform currently under way. One type is reform of land use rights. Its aim is to establish a system of land use rights that effectively promotes land circulation. The second type is to create fairly large-scale land management. Through land amalgamation and concentration, create investment conditions for larger scales of production and basic agricultural capital construction. These reforms have now made some preliminary achievements.

The Meitan experimental area, by focusing on the interrelationships between land, population, food, and employment, has created several systems that have far-reaching significance: One, they established preliminary land production rights, management, circulation and development systems that provide basic conditions for the family after contracting to make the transition to a large-scale land system set-up. Two, a land distribution system that stipulates that during a twenty-year land contract period the land will not be redistributed on the basis of population, which will break off the natural ties between land and population, and use the land system to establish a protective screen to restrict population growth. Three, complement the land distribution system and the noncultivated land resources development system, so that employment pressure created by the former can be absorbed by the latter. Last year, these experimental areas began permitting "compensated and uncompensated contract shifting" and "voluntary exchange" of land contracted to rural households.

### Experimental creation of cooperative economic organizations

The aim of this experiment is to create a stable organizational carrier for diversified commodity production and exchange, and to emphasize to the producer the importance of peasant participation in management and developing cooperation. The focus of the experiment in Yutian County in Hebei is to establish an economic "cooperative" to provide the peasant households with multi-faceted organization and service. The experimental area in Shangzhi City in Heilongjiang stresses promoting specialized cooperation of producers with the peasant household as the base, hence forming a democratically controlled and commercially managed cooperative organization. Last year Shangzhi City set up 484 new grain producer cooperatives.

### Establishing town and township enterprise system

The primary experiments in Fuyang Prefecture, Anhui, Wenzhou City in Zhejiang and Zhouzhu Prefecture in Shandong are establishing town and township enterprise systems.

The experiment in Fuyang is mainly in the three areas of demonstration enterprise systems, small industrial areas and popular financial organizations. They have made excellent progress. The entire experimental area has set up several collective stock financial service societies, each of which annually brings together over ten million yuan.

### Reform of the rural financial system

Guanghan City in Sichuan is engaged in this experiment. The city is carrying out reform experiments in five areas: reform of state specialized banks, standardization of state-run stock trust investment companies, improvement of the nonstate-run small-scale stock specialized credit agency management system, establishment of basic financial market regulations, and development of town-level peasant cooperative financial organizations. Currently the peasant cooperative fund associations have extended from the town to the village, and the city's 37 cooperative fund associations have accumulated over 11,400,000 yuan.

### Experiments in reform of forestries, animal husbandry, and fisheries

Sanming City collective forestry area in Fujian, one of the experimental points, has sponsored 15 experiments. Weihe Forestry Bureau and Suibin state farm in Heilongjiang have established 186 production cooperatives based on household contracts and have drafted corresponding regulations. The Xianghuang Banner in Inner Mongolia carried out experiments of a "two field system" of livelihood grassland and responsibility grassland. The Huanghua experimental fisheries area in Hebei and Shanwei experimental fisheries area in Guangdong have carried out separately experiments in establishing a fisheries cooperative fund association and

an wholesale aquatic products market. The Bijie Region in Guizhou, an experiment in developing a poor area, established some experimental sub-areas for population control and developing diversified management.

### Establishment of comprehensive developmental agricultural organizations

Huaihua Region in Hunan and the experimental agricultural comprehensive development area in Hainan took on this experimental project. Its primary task is to promote land renting, auctioning, and establishing a wholesale market.

It is reported that nationally, experimental rural reform areas have accumulated over 2 million characters worth of data, which has become an information source for decision-making by China's authorities.

### Far-reaching Significance

China's experimental rural reform areas have captured the attention of both foreign and domestic economic circles.

From the beginning, the World Bank has expressed approval of this carefully considered exploration of the Chinese government and has supported it with loans.

Internationally, some politicians and economists have viewed China's explorations of experimental rural reform areas as an indication that the Chinese government can go a long way on the road of reform and deregulation.

Du Yin [2629 7751, Director of China's Office of Experimental Rural Reform Areas, said that the success or failure of the experiments currently under way will be valuable. Because they can provide basic information, both positive and negative, to help the government draft rural policies and regulations to avoid major mistakes in macroeconomic decision-making and can minimize the risks in reform. At present, while many factors are restricting China's continuing reform, searching for a path through some experiments has especially important significance for the steady progress of overall reform.

### Long-Term Agricultural Loans Needed To Develop Production

91CE0498A Beijing JINRONG SHIBAO in Chinese  
1 Apr 91 p 3

[Article by Chang Naiqin (1603 0035 0530): "China's Percentage of Medium- and Long-Term Agricultural Loans Should Be Increased Steadily"]

[Text] I. China's Current Low Percentage of Medium- and Long-Term Loans Limits Agricultural Production Development

The Agricultural Bank of China (ABC) planned to increase agricultural loans by 9.2 billion yuan in 1989 to enhance the agricultural foundation and realize the

policy of slanting credit funds toward agriculture, but by the end of 1989 the ABC actually loaned out only 6.5 million yuan, or 70 percent of the planned increase. In 1990 the ABC planned to increase agricultural loans by 10 billion yuan, but it actually loaned out only 9.2 billion yuan by the end of November. Industrial and commercial loans increased 27 percent more than agricultural loans. Planned agricultural loan increases for 1989 and 1990 were not fulfilled. Although agricultural loans in 1991 have increased over 1989, this has not basically solved the agricultural loan problem, and agricultural loans are in a state of stagnation.

By the end of November 1990, agricultural banks had 55.8 billion yuan in outstanding loans, of which about 20 percent were medium- and long-term, a too low proportion. Loans that have been used mostly for routine annual agricultural production costs over the last four decades, are no longer able to meet the needs of modern agricultural production development. Contemporary agricultural production development has a pressing need for medium- and long-term loans that enhance and increase agricultural infrastructure in such areas as, building basic agricultural facilities, farmland capital construction, irrigation projects, farm machinery, agricultural development, and agricultural S&T. Because of agricultural loan shortages and various other factors, agricultural production development is greatly limited.

## II. Factors That Limit Medium- and Long-Term Loans

A. The short-term nature of agricultural production activity has cooled agricultural investment initiative. After implementing contracts the scale of land management became smaller and more decentralized, and peasants have felt less responsible for land use rights and have pillaged the land. Peasants are more interested in low-investment, high-profit industrial sidelines than in investing in projects with medium- and long-term profits, such as farmland capital construction, irrigation projects, farm machinery, and resource development.

B. Medium- and long-term loans bring lower profits. Because the risks are higher and profit margins lower, most loans flow to industry, commerce, and high-profit industries, but investment in long- and short-term loans is not increased.

C. There are no guarantees for medium- and long-term loans. According to current agricultural credit plans and fund separation, even though planned credit tasks are assigned every year, basic-level banks and cooperatives are always short of funds. Lured into a pattern of making the best investment, they repress agricultural loans, guarantee savings payments, agricultural and sideline product procurement, and high-profit agricultural production projects, which often puts the squeeze on medium- and long-term loans.

D. Financial operations are short-term. Since the contract management responsibility system was introduced to banks, profits have become their major operating objective. Agricultural banks and credit cooperatives

usually choose short-term loans over medium- and long-term ones, production cost loans over equipment loans, and high-profit industrial loans over low-profit ones.

E. "Across-the-board" monetary policies also limit medium- and long-term agricultural loans.

F. Interest rates policies limit medium- and long-term loans. Because agricultural loans have high interest rates and low profit margins, and, in particular, savings and loan interest rates being out of line with each other after loan interest rates were readjusted, agricultural banks and credit cooperatives have so many losses that it is hard for them to continue operating and they are unable to increase medium- and long-term investment.

## III. Experiences of Economically Developed Countries in Medium- and Long-Term Investment and Preferential Protection Policies

The considerable attention that governments of economically developed countries have paid to medium- and long-term agricultural investment and preferential protection policy, has played an important role in the combined use of production factors to promote and achieve agricultural modernization.

A. Granting preferential medium- and long-term agricultural loans. 1. They increased their percentage of medium- and long-term loans to meet agricultural development needs for building irrigation projects, leveling land, and buying farm machinery. The Japanese government allocates special funds from its revenue each year to provide low-interest agricultural loans with maximum maturity periods of 30 years. In 1977, 70 percent of such loans were medium- and long-term ones. 2. They grant low-interest preferential loans. The French Agricultural Credit Bank began to grant agricultural discount loans to farmers in the late 50s at only one-half the interest rates of commercial banks for buying land, housing, processing agricultural sideline products, etc.

B. They grant subsidies to farmers to build rural capital construction projects such as irrigation projects, roads, electrification, and land management.

C. They subsidize capital goods purchases by farmers with tax-exemptions and allowances. Statistics show that during its Second Modernization and Equipment Plan from 1954 to 1957, France provided an average of 89 billion francs a year in tax-exemptions and subsidies for agricultural capital goods.

D. They implement price protection policies for agricultural products. Along with increasing specialization, mechanization, and socialization of agricultural production, more and more agricultural products are turned into commodities. To balance agricultural product supply and demand, and stabilize farmers' investment initiative under these conditions, various governments implement price protection policies, such as half-price subsidies, set target prices, and subsidized prices.

In summary, most developed countries invest in medium- and long-term farm mechanization and construction of other agricultural production facilities, and only a little goes to meet production needs. This kind of investment orientation mainly solves the problems of deteriorating conditions that confront agricultural production, backward production methods, and low production efficiency. Moreover, it meets pressing agricultural production development needs in the areas of farm machinery, power, and basic facilities, and enhances agricultural infrastructure.

#### **IV. Suggestions for Increasing Effective Medium- and Long-Term Loan Investment**

A. A stable rural economic policy is the basis for increasing medium- and long-term agricultural loans. Supporting and perfecting the dual management system to stabilize long-range land management by peasant households, will enable peasants to realize immediate material benefits and look forward to long-range profits, thus stimulating land utilization and sustained investment initiative.

Increased agricultural investment will require adhering to the principle of focusing on peasants and collectives, giving priority to finance and responsible departments at all levels, and effectively using bank loans for diversified and multipurpose development. Collective investment must be used mostly for basic facilities, which are of common benefit. Banks should support projects with low investment, quick results, good efficiency, and timely repayment capability.

B. Increasing the percentage of medium- and long-term loans is the basic way to solve agricultural loan stagnation and agricultural infrastructure problems. The Central Bank should provide special planning and funding for medium- and long-term loans by agricultural banks

and credit cooperatives. Medium- and long-term agricultural loans should be gradually increased from the current approximately 20 percent to more than 50 percent, and they should be included in national credit plan. We must clarify the percentage of planned annual medium- and long-term loans in national agricultural credit planning. Of the funds needed for medium- and long-term loans, agricultural banks should provide 50 percent, and the Central Bank should loan 50 percent for a fixed number of years and at low interest rates based on their medium- and long-term loan structures.

C. The key to increasing agricultural investment is lowering interest rates on medium- and long-term loans. We should rescind the stipulation that puts higher interest rates on longer maturity periods, in line with China's agricultural conditions and peasant capability. We should practice a policy of setting medium- and long-term loan interest rates a grade lower than standard interest rates, with the disparity being subsidized by public finance or the Central Bank. Agricultural banks and credit cooperatives should follow the principle of making tiny profits without losses, and provide consumers with low-interest loans based on efficiency to lighten peasant burdens and arouse peasant initiative for increased investment.

D. The basis for increasing medium- and long-term loans is implementing a preferential encouragement policy for fund management by rural financial institutions, such as agricultural banks and credit cooperatives. When planning rural financial institutions profit turn over to higher authorities, finance departments should allow those whose income decreased because of increased agricultural loans to retain a correspondingly higher percentage of profits. And change specialized bank practice of collecting a centrally set percentage of credit funds regardless of profits, appropriately increase the percentage of credit funds collected by agricultural banks, and practice a policy of setting lower interest rates for agricultural loans than for industrial and commercial ones, and lower interest rates for medium- and long-term equipment loans than for agricultural ones.



### People's Perception of Honest Administration Analyzed

91CM0372A Shanghai SHEHUI [SOCIETY]  
in Chinese No 73, 20 Feb 91 pp 12-14

[Article by Zhou Tiegen (0719 6993 2704) and Li Jun (2621 0193): "People's Perceptions on the Development of Honest Administration"]

[Text] Since the party put punishing corruption and developing honest administration on the agenda as a major issue at the Fourth Plenary Session of the Thirteenth Central Committee, how effective has it actually been? How do the masses look upon it? In what ways has mass social psychology changed? Recently, we selected some organizations, enterprise units, people in various social circles and strata in a city to conduct a random sampling survey of their appraisal on the current development of honest administration. We received 2,001 valid questionnaires out of the over 2,500 that we distributed. From the responses and what we understand of the ordinary work situation, we analyzed the people's state of mind toward the development of honest administration. In general it has these characteristics:

**The first characteristic is that society's basic frame of mind is a mixture of satisfaction and concern. Some people are pleased, some concerned, and some both pleased and concerned.**

Of the 2,001 people surveyed, 35.28 percent were satisfied or relatively satisfied with the present situation of punishing corruption and developing honest administration; 9.45 percent believe that it has accomplished rather obvious results and 79.7 percent believe that they are beginning to see results; 27.99 percent believe that party and government organizations are honestly and diligently administered or comparatively so; and 45.18 percent of the people were confident or totally confident about punishing corruption and advocating honesty.

From this we can see that a considerable percentage of people have expressed "happiness" with the current state of punishing corruption and developing honest administration, which indicates the people approve of the current punishment of corruption and development of honest administration and totally affirm what party committees and governments at all levels are doing to punish corruption and advocate honest administration, and the results they have achieved.

Of the 2,001 people, 12.7 percent expressed dissatisfaction with the current state of honest administration; 9.45 percent believed that the development of honest administration was ineffective; 4.9 percent expressed skepticism about developing honest administration; and 11.89

percent believed that honest and diligent administration of party and government organizations was rather lacking.

The percentage of people expressing "concern" about the current punishment of corruption and development of honest administration was small, and was obviously less than those who were "pleased." But it indicates that there are aspects of punishing corruption and advocating honest administration that do not meet the people's expectations. There are definite discrepancies between the actual situation and the ideal, and feelings are uneven.

Of the 2,001 people, 50.17 percent expressed dissatisfaction with honest government; 79.71 percent believed they were beginning to see results from the development of honest administration; 37.73 percent were somewhat confident about punishing corruption and advocating honest administration; and 58.42 percent believed that party and government organizations were generally diligently administered.

This percentage of people was large. Except for those who were somewhat confident about punishing corruption and advocating honesty which is a slightly lower percentage, the rest were all over one-half. Those who believed that they were beginning to see the results of developing honest administration were as much as three-fourths. Obviously the vast majority of people expressed a confused state of mind mixing happiness with concern. On the one hand, they approved of the party Central Committee decision and the results achieved in working for honest administration. On the other hand, they felt that there is a rather large discrepancy between the current state of developing honest administration and the demands of the party Central Committee, and expectations of the masses. There still are quite a few issues in developing honest administration that need to be solved. They have fully appraised the difficulty and the complicated nature of developing honest administration and feel that the burden is heavy and the road is long.

The state of mind mixing happiness and concern shows precisely that people's understanding of developing honest administration is a complete and normal socio-psychological structure constituting their basic socio-psychological state.

**The second characteristic is that in the mixture of happiness and concern, there is more concern than happiness, and a feeling of discontent troubles people's thinking.**

Within the people's basic mixture of happiness and concern, there is a considerable dissatisfaction with current development of honest administration on the part of different professions and members of different parties (see table below).

**Appraisal by Members of Various Professions and Various Parties on the Current State of Developing Honest Administration (Percentages)**

	Satisfied	Rather Satisfied	Total	Skeptical	Dissatisfied	Total
Workers and Peasants	9.58	28.04	37.62	43.93	12.85	56.38
Organizational Cadres	3.56	33.45	37.01	50.93	11.92	62.85
Enterprise Managers	2.81	29.38	32.19	53.28	13.91	67.19
Professionals	29.73	2.1	31.83	45.94	13.51	59.46
Unidentified	3.13	25.0	29.02	59.38	9.38	68.76

	Satisfied	Rather Satisfied	Total	Skeptical	Dissatisfied	Total
Party Members	2.88	31.4	34.28	54.08	10.83	64.91
League Members	6.59	29.04	35.63	47.01	15.87	62.89
Democratic Party Members	7.69	15.38	23.07	76.92	0	76.92
Nonparty Members	7.41	29.48	36.89	44.91	13.73	58.64

The appraisal by members of various professions and different parties regarding the current state of developing honest administration can be seen from the table. A rather large number of people indicate that they are "dissatisfied" and "skeptical," all exceeding 55 percent, and the number of organizational cadres, enterprise managers, those who did not indicate their status and Party members, members of the Communist Youth

League, and members of democratic parties expressing "dissatisfaction" and "lack of total satisfaction" all approach or exceed two-thirds. From this we can see the tendencies of people's current appraisal of developing honest administration.

This dissatisfaction also is reflected in people's confidence in current punishment of corruption and advocacy of honesty (see table below).

**Confidence of Members of Various Professions and Various Parties Toward Punishing Corruption and Advocating Honesty (Percentages)**

	Fully Confident	Confident	Total	Not Very Confident	Not Confident	Total
Workers and Peasants	18.46	29.44	47.9	43.46	5.84	49.3
Organizational Cadres	12.62	47.6	60.31	33.80	4.05	37.85
Enterprise Managers	11.88	42.66	54.54	38.91	4.53	43.44
Professionals	10.81	32.43	43.24	32.43	16.22	48.65
Unidentified	0	40.63	40.63	50.0	9.38	59.38

	Fully Confident	Confident	Total	Not Very Confident	Not Confident	Total
Party Members	10.74	47.51	58.25	36.28	2.68	38.96
League Members	13.47	38.32	51.79	38.82	7.19	45.51
Democratic Party Members	15.38	0	15.38	76.92	0	76.92
Nonparty Members	15.12	36.88	52.0	38.73	6.02	44.75

We can see that, with the exception of the two categories of organizational cadres and Party members, over 40 percent of all the others are not fully confident and dubious about punishing corruption and advocating honesty. This shows that people's dissatisfaction with developing honest administration is already reflected in the work of making administration honest and influences it. This is comparable to the percentage of people who expressed dissatisfaction and lack of total satisfaction in developing honest administration. Obviously, it should be much less. This reflects the inclination and impetus of people's confidence.

The third characteristic is that the differences among members of parties are slight and multiple differences in standards and concepts lead to obvious intergenerational differences.

From an analysis of survey statistics, although the mental attitudes of Party members, Youth League members, and members of democratic parties toward current development of honest administration reflect differences, they are in basic agreement. This shows that people's appraisal of developing honest administration is a rather objective and

common view. At the same time, it also shows that differences in political attitudes of members of different parties and different social strata are clearly very slight.

But in evaluating inclinations and attitudes toward the state of honest administration, intergenerational differences are greater than party differences (see table below).

**Evaluation of the State of Honest Administration (Percentages)**

	Satisfied	Rather Satisfied	Total	Not Very Satisfied	Dissatisfied	Total
Under 30 Years Old	7.93	30.53	38.46	40.56	17.71	58.27
31-40	4.13	30.76	34.89	51.98	11.87	63.85
41-50	4.19	30.15	34.34	53.60	9.9	63.5
51-60	4.05	28.91	32.95	53.24	11.62	64.86
Above 60	6.12	34.69	40.81	44.90	14.29	59.19

**Confidence in Punishing Corruption and Advocating Honesty**

	Fully Confident	Confident	Total	Not Very Confident	Dubious	Total
Under 30 Years Old	15.85	34.96	50.81	38.2	6.53	44.73
31-40	9.89	43.5	53.39	39.38	4.67	44.03
41-50	13.4	46.73	60.43	35.84	2.85	38.69
51-60	12.7	41.89	54.59	36.48	4.59	41.07
Above 60	6.12	38.78	44.90	44.8	4.08	48.88

Why does this phenomenon occur? We believe that this is mainly caused by the multiple deviations and differences between the generations in the way they evaluate standards and concepts. Even though a considerable percentage of those 30 years old and below and 60 years old and above, and the 31 to 40 and 51 to 60 groups maintain the same attitude, the content of each also is different.

Those 30 years old and younger are rather young and their thinking is radical. It is easy for them to analyze and make judgements with the ideology and concepts of modern society. In addition, the social experience of this segment of the population is simple. In evaluating it is easy for them to overstep the objective reality of society. So, they would be more idealistic in evaluating the development of honest administration than older people. The percentages of those who expressed satisfaction and complete confidence and dissatisfaction and lack of confidence in the development of honest administration are all higher than any other age level.

But those 60 years old and above are the opposite. Traditional and conservative mentality is greater in them than in younger people. These people have rich experience and are more deeply influenced by traditional concepts than people of other ages. They often use traditional values and concepts to evaluate issues that occur in new situations. The vast majority of them make simplistic comparisons between wartime and 1950's party style and modern party style, and often it is easy for them to overlook the demands of the new situation on party style in evaluating.

The 41 to 50 year olds generally have a certain amount of experience. Many of them are unit cadres and have both

traditional and modern ideological concepts. Their understanding of the party's general and specific policies and objective reality, on the whole, is greater than people of other age levels and their analysis and judgement often is more objective. The percentage expressing satisfaction and relative satisfaction is clearly lower, but the percentage expressing confidence and total confidence is clearly higher than other age groups. They obviously tend to be confident.

**The fourth characteristic is that social existence determines social consciousness, and the people and events in one's surroundings have a decisive effect on one's psychological state.**

The so-called environmental effect on evaluation mentality mainly indicates that all objective reality produces an effect on social (individual) psychological activity. A person is limited by his physiology, capabilities, etc, and in understanding, analyzing, and judging things quite often uses his own experiences and environment as a basis. This also was reflected in this survey.

In the column under "present society's most prominent corruption" we indicated six categories: graft and accepting bribes, violating financial and economic discipline, entertaining and giving gifts, using authority for personal gain and manipulating power and extortion, bureaucratic dereliction of duty and malfeasance, and arbitrary collection of fees and arbitrary apportionment. In principle a person could only choose one. As a result, 50.1 percent selected "using authority for personal gain, manipulating power and extortion." It was first. The rest were: bureaucratic dereliction of duty and malfeasance, entertaining and giving gifts, arbitrary collection of fees and arbitrary apportionment, graft and accepting bribes,

and violating financial and economic discipline, in that order. This truly reflects the fact that there still is a rather serious problem with a small number of party members and cadres using authority for personal gain, manipulating power and extortion. The masses strongly reflect that the unhealthy tendency in the trades is essentially using authority for personal gain.

Professionals most frequently selected "entertaining and giving gifts" as the most prominent corruption; 29.73 percent selected it, a much higher percentage than other people. It was 2.5 times the average of 12.34 percent for this category and three times the 10.65 percent for organizational cadres and four times the 7.49 percent for members of the Youth League. Also professionals and enterprise managers most frequently selected "arbitrary collection of fees and arbitrary apportionment," reaching 13.51 percent and 12.03 percent, respectively, much higher than other people. Why was the reflection of these people on these issues especially high? Most professionals represent individual households and most enterprise managers are factory directors (managers). Their evaluations most often are based on their own personal experiences and impressions. In their own economic activities they have to make requests to and have close relations with law enforcement and supervisory departments and economic management departments, and entertaining and giving gifts is a principle means. Relevant departments, trades, and a few people use their authority and facilities to eat, take, check, demand, arbitrarily collect fees, and arbitrarily apportion. They hate this but have no alternative but to do it.

In collecting the questionnaires, we also especially noted that people from different units also had different evaluations of the state of honest administration. After we analyzed the state of honest administration and the efforts to make the administration honest in these units, we discovered that the differences were very much related to the state of honesty of the units' administration and the efforts to make the administration honest.

This shows that it is very easy for people to begin from their environment in analyzing and judging things, and environment has a great impact on social psychology. Despite these definite limitations of one's mode of thinking on understanding, analyzing, and judging things, it also reflects objective reality to a very great extent.

From an analysis of the above social psychological conditions, we have the following few revelations about how we can now do a better job of developing honest administration.

**The first revelation is that developing honest administration should be continuously deepened and developed in depth. We cannot be satisfied with resolving surface problems.**

Since the Fourth Plenary Session of the Thirteenth Central Committee, each locality has begun from facts and achieved initial results, and it was there for all the

masses to see. These successes were the result of party committees and governments at all levels striving together with all the people, and this was precisely the area where the people were rather satisfied. But along with their satisfaction, the masses also expressed clear dissatisfaction, prominently reflecting that developing honest administration still had not touched on and solved some deeper issues. For example, although a few party members and cadres were punished for violating the law and discipline in building houses, the masses report that we have not touched on the clearly unbalanced revenue and expenditure of a few cadres "working seven or eight years, being paid seventy or eighty, and having a seven or eight room house." Essentially the masses complain more strongly about this inconsistency of revenues and expenditures than about the violations of law and discipline in building houses. Another example, some empty locked houses were recalled and redistributed and the masses applauded this. But they did not see any action taken against cadres using their authority to seek a house, to occupy more houses and better houses, and to seek houses for their sons, daughters, or grandchildren. In addition, in an earlier period, after some localities' style of eating and drinking was stopped, it resurged. The masses reacted a great deal and were very dissatisfied. So, establishing an effective system to counter graft and ensure honesty is a deeper issue that is worth our study.

**The second revelation is that we should make correcting unhealthy tendencies in trades an important element in developing honest administration. We cannot regard it as unimportant.**

The so-called unhealthy tendencies in trades refers to a few cadres and staff who rely on the authority of their trade or their department to manage people, finances, or things and business conditions for such disgusting practices as using their occupation and power for personal gain, extortion and blackmail. Their obvious characteristics are to eat, to take, to check, to demand. "Those living near the mountain, live off the mountain, those living near the water live off the water." If they have authority they seek personal gain; if they supervise they block others; if there are no benefits, they do not handle the affair; if there are not many benefits, they do not exert themselves; if there are benefits, they handle it arbitrarily. The vast majority are in economic management, law enforcement and supervision, public facilities, and other departments intimately connected with the lives of the masses, and have broad involvement and great influence.

For a period of time, the vast majority of hot issues that the masses reacted strongly to were related to unhealthy tendencies in trades. Some units and individuals for individual or parochial profits run to departments presenting money, and engage in "emotional investment" by entertaining and giving gifts and even giving bribes. Often they entertain and give gifts with a smile on their face. As soon as they turn their face they reveal a wry smile. In a minute they can be complaining. When the

masses see these unhealthy tendencies and corruption in the trades there is hatred in their hearts. So, correcting unhealthy tendencies in the trades must be an important element in developing honest administration and must elicit a great deal of attention from leaders at every level and they must recognize its importance and urgency and take firm control of it.

**The third revelation is that we must "fight a protracted war" in developing honest administration. We cannot leave it unfinished.**

In the past successive party style and honest administration processes all had a common characteristic. When they first began, they brought up many demands, shouted quite a few high-sounding slogans, made a great show, and made promises to the masses. They built masses' expectations up very high, but before the issue was completely solved, when some unhealthy tendencies even resurged, the masses' sentiments would very quickly drop from their high expectations, revealing strong dissatisfaction and aversion.

Whether or not the people can change this fixed psychological tendency will be determined by two key aspects. The first aspect is whether or not the development of honest administration can be persisted in until the end and real results are attained. The other aspect is whether or not the masses, through propaganda, education, and guidance, can be made to return to reality from their fixed tendency toward idealistic sentiments and make more objective, realistic demands of the development of honest administration.

#### **Problems with Enforcing Administrative Procedural Law**

91CM0331A Changsha FAZHI YUEKAN [LEGAL SYSTEM MONTHLY] in Chinese No 113, 5 Jan 91  
pp 12-13

[Article by the Research Office of the Hunan Province Higher Court: "A Survey on Enforcing Administrative Procedural Law"]

[Excerpt] [passage omitted] Currently the enforcement of administrative procedural law mainly faces the problem of the "three unadaptables."

First, the masses have not adapted. Only some of the masses understand that administrative procedural law has changed the old situation where the "people do not bring complaints against officials," and that they can protect their own rights through administrative procedural law. The overwhelming majority of the masses have still not adapted to this. (1) They do not know how to bring suits. Many comrades have indicated that the law has not yet "descended into the world" and has not yet penetrated among the masses. They do not know what administrative procedural law is, much less how to use litigation to protect their own rights. Some cadres are also strangers to administrative procedural law. Some people ask comrades in administrative courts, "How do

you do logistical work in the court?" In the more than three years since the court's administrative courts were established, very few suits have been brought to court. In 1988, a certain city investigated 25,169 administrative cases, but brought only four to court; in 1989 they investigated 31,532 cases, but handled only 39. The primary reason for this is that the masses do not know how to bring a suit to court. (2) The masses dare not litigate. Since ancient times, the people have been unable to fight officials; even if they win a suit, the officials cause difficulties later on, which may cause even greater trouble. This is a particular problem in economic administrative and management departments such as taxation, industry and commerce, and health and epidemic prevention. Their administrative behavior directly affects the citizens and the managerial activity of enterprises. In addition, the laws and regulations are very flexible, and punishment may be severe or lenient. Thus many people prefer to suffer a little now, rather than go to court to secure a little peace in the future. From the survey, one can see that few suits are brought against administrative departments that routinely manage things, while there are many suits brought against departments that infrequently manage things. Last year a certain city's taxation organization investigated 15,597 tax administration cases, but none went to court. Few suits against industry and commerce, food sanitation, or public security are taken to court either. In addition, of 2,400 administrative cases concerning state land that were investigated, only 25—or 1.04 percent—were brought to court. (3) The masses are unwilling to file suits. Some of the masses say that the state has a high regard for the legal system, but that it believes even more strongly in wielding administrative authority. In many areas the courts are restricted by administrative agencies and cannot safeguard citizens' interests. Even if the courts hand down a sentence, nothing can be done if administrative agencies do not enforce it. At the same time, the courts and the government are state organizations. It is difficult to avoid having officials protect each other, and thus it is foolish to take them to court. An administrative procedure is only a meaningless document, and an administrative ruling is also only made up of empty words. More of the administrative rulings issued since 1986 have dealt with administrative procedures and have protected the government, while fewer have been voided or changed. This has increased the masses' lack of trust in judicial administrative rulings to some degree.

Second, administrative organizations have not adapted. In making administrative activity part of the legal system, most administrative leaders and personnel fully understand and consciously accept supervision, and they actively participate in the procedures and strive to improve administrative enforcement. However, a small number of people are used to relying on administrative orders and the will of senior officials to administer and manage, and they cannot enforce administrative laws or regulations very well. In particular, they do not understand the enforcement of administrative procedural law, do not want to be the accused, and are afraid of legal

restraints. Because of this sort of thinking, some corresponding countermeasures have emerged, such as forestalling parties from bringing suit before litigation, not cooperating during litigation, and not enforcing the court's judgment after litigation. When these administrative personnel cite the basis for administrative punishment, they can cite only government documents, not laws and regulations. Government documents generally are not binding on judicial proceedings; even if a party wants to file a complaint, he can find no legal basis for doing so. When determining punishment, some administrative personnel stress tolerance and making concessions. Administrative law enforcement organizations say that when handling administrative cases, they "prefer lenience to strictness, light-handedness to heavy-handedness, and tolerance to severity." Some areas have even seen the phenomenon of bargaining over punishment. One public security patrolman caught a gambler and wanted to fine him 3,000 yuan. The party involved said, "If you fine me 3,000 yuan, I'll take you to court." The patrolman said, "I'll only fine you 2,000 yuan." The party then said, "If you fine me 2,000 yuan, I'll take you to court. Make it 1,000 yuan, and we'll forget it." In the end, the fine was 1,000 yuan. Few of the punishments are recorded—most are oral. Fines are not written down, and there is not even a receipt for an IOU. This phenomenon is particularly more widespread when it comes to punishing prostitutes, those who go to prostitutes, and gamblers, because these parties dare not make things public. Because they lack written evidence of the punishment, parties involved have no way to bring suit, and the courts have no way to accept or hear the cases. When those punished petition to have the decision reviewed, administrative organizations generally reduce the sentence to avoid action by the parties involved. Some organizations uniformly increase the punishment when a party petitions for review, so that the party will not dare bring suit again. Some organizations do not put the sentence in writing for the party, but simply reaffirm the original sentencing decision orally so that the party will not have the written evidence necessary for a review procedure. When declaring the results of a sentence, administrative organizations generally do not give parties the right to appeal. One court investigated 257 administrative cases in a city's construction department in which punishment was handed out; in 255 of these cases there was no right to appeal. The course of litigation generally shows that administrative organizations

are unwilling to be the accused, do not transfer case files, do not submit responses, do not appear in court to answer the charges, and do not accept the courts' judgments. In one case, the court tried to transfer files four times, all unsuccessfully. Finally, with the help of the leadership, there was an agreement that the files would be "loaned to the court for examination." During the trial, the court summoned the accused to respond in court four times—all unsuccessfully; when the accused twice failed to appear in court, the judgment was handed down in the accused's absence.

Third, the people's courts have not adapted. The enforcement of administrative procedural law has broadened the scope of judicial work, resulting in higher demands on and greater responsibilities for the courts. The courts have had a positive attitude about this, and they also have felt pressured. Now courts at all levels in the province have established administrative courts, and they actively try administrative procedural cases. The main problem is that they fear it will affect their connections, and they fear that they will face personal restrictions in such areas as court costs, cadre life, and employment for their children. They dare not enforce the law impartially; when handling a case, they do their best to uphold the decision of the administrative organization. Sometimes they also decide to uphold nullifications or changes, and sometimes they pass the problem on to a higher level, so that the first court upholds the decision, and the second court changes or nullifies it. At the same time, the problem of inadequate power is also a major problem. There are now over 100 legal provisions and more than 20 local laws and regulations that clearly stipulate the range of cases subject to administrative procedures. Appeals of sentences decided made by administrative organizations may be brought to court in the people's courts. According to the survey, a certain city's administrative organizations deal with 20,000 to 30,000 such cases annually. Looking at the number of cases accepted in nine areas in which people may currently bring suit against a wide range of specific administrative behaviors, if administrative litigation procedures were enforced, then the number of cases could increase sharply. In reality, the longest total time spent handling a case was 203 days, and the shortest time was 20 or so days. Currently there are only slightly more than 300 administrative judges in the entire province, which is highly unsuited to the demands for enforcing administrative procedures. [passage omitted]

### Specifications of 155-mm Gun-Howitzer

91CM0324A Beijing BINGQI ZHISHI [ORDNANCE KNOWLEDGE] in Chinese No 1, 15 Jan 91 pp 2-4

[Article by Zhang Fengxu (1728 7685 6079): "China's 155-Millimeter Gun-Howitzer"]

[Text] Countries throughout the world, especially those in the West, have chosen 155 millimeters as the caliber of their most lethal and longest range gun-howitzers. These gun-howitzers can be either towed or self-propelled. In recent years an auxiliary propulsion system has been added to the towed version. The barrel lengths of the 155-mm gun-howitzers vary from country to country; they can be 24, 39, or 45 calibers long, but they all can launch the same types of projectiles. The 155-mm gun-howitzer uses extended-range full-bore (ERFB) shells, extended-range full-bore base-bleed (ERFB-BB) shells, illuminating shells, and smoke shells. Western countries currently use 155-mm gun-howitzers 45 calibers in length to launch full-bore shells. Their maximum

range is 30,000 meters, and the maximum range of their ERFB-BB is 39,000 meters. In recent years, in response to operational requirements, China has designed its own 155-mm gun-howitzer. In an international defense technology exhibit in Beijing in November 1986, China exhibited its own towed 155-mm gun-howitzer for the first time, which elicited much scrutiny within the country. The performance of this gun is comparable to the most advanced gun-howitzers now in service anywhere in the world (for details, see BINGQI ZHISHI No. 3, 1987). The Type GM-45 155-mm gun-howitzer was produced by improving some parts of the existing Type 59 130-mm howitzer. Not only does this gun-howitzer preserve the performance, range, and lethality of the original 155-mm gun-howitzer (it can fire all the same projectiles), but the weapon has been made lighter, the trajectory height has been lowered, the firing rate has been increased, and costs have been lowered, so its overall performance has been improved. The relative performance of the GM-45 155-mm and the original 155-mm gun-howitzer are listed in the table below:

	GM-45 155-mm towed gun-howitzer	155-mm towed gun-howitzer
Total weight (kg)	Combat weight, 8,150; traveling weight, 8,900	9,700
Trajectory height (mm)	1,380	1,659
Firing style	Traveling wheels on ground	Main chassis on ground
Towing style	Barrel disconnected from anti-recoil, pulled back, and kept facing backward	Barrel swung through 180 degrees, held facing forward

It is not hard to convert the 155-mm gun-howitzer into the GM-45 155; it can be done in a factory or by a military maintenance unit.

The body of the GM-45 155 consists of a muzzle brake, a barrel, forward and rear shock-absorbing rings, and a gun breech. The gun breech has been changed from round to square, while the breechblock is still of the split-screw style. The bomb conveyor and the cradle are linked together to load the shells into the chamber. The cradle is frame style. When the gun recoils and counter-recoils it runs along two tracks, one left and right.

The anti-recoil device consists of a recoil brake (within the cradle and underneath the body of the gun), a counterrecoil device (underneath the body of the gun), and a variable recoil mechanism. The variable recoil mechanism can adjust the size of the counterrecoil bleed. When the firing angle is large, it can reduce the bleed and increase resistance to recoil, lessen the length of the recoil, and prevent the gun breech from ramming into the ground.

In order to reduce traveling length, there is a gun extender and retractor on the carriage to the right of the gun which can retract the gun and hold it in a clamp. When the gun is being retracted, the gun must be disconnected from the anti-recoil device, so two linking devices have been added to the weapon; one links the recoil brake to the lock, and the other controls the link between the counterrecoil piston rod and the cradle. In

addition, the screw jack firing platform has been replaced by back rolling wheels. The weapon is operated hydraulically. When the wheels touch the ground the frame can be lifted up for opening and closing. When traveling, the frame is mounted on the front of the vehicle, which is linked to the tow truck by a tow bar.

### A 155-mm gun-howitzer equipped with an auxiliary propulsion device.

As is common knowledge, during long-distance travel the gun is towed by a truck, but when entering and leaving the battle site infantry are needed to drag it into position. Not only does this expend a lot of manpower, but it is slow. In modern warfare, highly developed reconnaissance technology has made it necessary to be able to enter and shift battle sites rapidly, otherwise strong enemy fire will be encountered. This is why an auxiliary propulsion system has been installed on the towed gun-howitzer. Now the opening and closing of the frame, the raising and lowering of the firing platform, and elevation and depression of the barrel are all automated.

The auxiliary propulsion system consists of an engine, an instrument panel, lighting, and five hydraulic systems, and there are 18 screw-bolt connections on the front of the lower frame. Hydraulic power is transmitted to the various operating parts of the gun via hoses.



The system uses the 493Q vertical four-cylinder water-cooled engine, which has a maximum power of 56.5 kilowatts (approximately 77 horsepower) and a maximum rpm of 3600. To ease starting in winter, it also has a cold start preheating plug.

The instrument panel is located in front of the driver and indicates water temperature, oil temperature, oil pressure, and rpm. It also has switches for large and small lights and various throttle controls. It is easy to operate.

The hydraulic system is a key part of the auxiliary propulsion system. It consists of five subsystems:

1. Main drive system. Via an independent gear box, the engine drives two BPV-70 two-way variable plunge pumps which, together with four wheel motors mounted on both the left and right side stabilizing platforms, form a closed loop. The quantity of oil supplied by the plunge pump determines the rpm of the wheel motors. The wheel motors are linked to the wheels, which enables the gun to move. Via the manual servovalve's control of the oil flow in the hydraulic pump, the operator's speed control stick determines whether the gun moves forward or backward. The driver can also select between a higher speed two-wheel drive or a slower four-wheel drive depending on the terrain. The structure of this device is simple and compact, and it provides excellent drive performance.

2. Steering system. Most steering systems in the auxiliary propulsion systems used abroad are one of two types. One type is a forward steering system in which the wheel providing the drive also provides the steering while the rear wheel spins freely. The advantage of this type of system is that it is very simple in structure; the disadvantage is that, on rough terrain at relatively high speeds, it is not easy to steer the vehicle. The second type of system is a rear steering system in which the driver controls the direction of the rear wheels. The structure of this type of system is complex, but it is safe and reliable. China uses the rear wheel steering system.

3. Travel/combat conversion system. This system cannot operate simultaneously with the main drive system. After the gun has come to a stop, the manual steering valve is operated and it directs the oil from the variable plunge pump toward the primary and secondary trays. The oil itself is supplied by oil reservoirs on the right and left sides in the rear of the frame. When the engine is out of order, a hand pump can be used to carry out the conversion.

4. Braking system. There are pneumatic brakes and hydraulic brakes. The braking system's fluid path includes a high-pressure energy accumulator, and the energy provided by this mechanism can be used to perform the braking action, so the brakes can be operated even when the engine is not running. The switch between pneumatic and hydraulic power is performed by the braking system's central pump. When pneumatic or hydraulic pressure is delivered to the disc-brake piston, the braking action takes place.

5. Free wheel system. When the gun is to be towed, the main drive system must be disconnected from the wheels. When a certain amount of pressure is applied to a control lever, this system's manually operated valve causes the wheel motor's plunge piston to disengage from the wheel, which then spins freely.

#### **The 155-mm Self-Propelled Gun-Howitzer and Its Fire-Control System**

The 155-mm self-propelled gun-howitzer and its fire-control system were developed very recently by China. The system consists of a self-propelled gun, an ammunition truck, a fire-control vehicle, and a forward deployed reconnaissance vehicle. This system employs advanced, well-coordinated technology. It performs every necessary function in a reliable manner, and is on a par with advanced world standards.

The barrel is 45 calibers long, the inner and outer projectile paths are the same as those of the towed version, and it can use NATO 155-mm ammunition. However, the structure of this gun has been changed significantly. The breechblock has been changed from a threaded type to a horizontal wedge type. A metal ring is used to block off the air. The elevator is operated hydraulically, and the elevator and equilibrator are combined. It has a random-angle semi-automatic loading device. Inside the totally enclosed welded turret is installed a fire-control computer, a gun-position indicator, a fully automatic aiming device, an inertial compass, a satellite position finder receiver, an automatic fire-extinguishing system, an NBC [nuclear, biological, chemical] system, and a wire/wireless communications system. The turret is relatively roomy, which makes it convenient for the crew to operate.

The self-propelled gun-howitzer runs on tracks, its power plant is a 525-horsepower air-cooled turbocharged diesel engine, it has a fixed-shaft mechanical twin-flow gear box, is operated hydraulically, and has high strength torsion-bar suspension, which makes the gun highly mobile and comfortable for the crew.

The ammunition truck uses the same chassis as the self-propelled gun. It has a crew of four, the ammunition is kept behind the engine firewall, and it has a chain-type ammunition conveyor which supplies projectiles at a rate of six rounds per minute on a metal ramp. The vehicle carries 110 rounds.

#### **Specifications of the 155-mm Self-Propelled Gun-Howitzer**

Total combat weight	32 tons
Crew	5
Travel/combat conversion time	1 minute
Elevation/depression	+72 to -30 degrees
Traverse	360 degrees
Maximum firing rate	4-5 rds/min

**Specifications of the 155-mm Self-Propelled  
Gun-Howitzer (Continued)**

Auxiliary armament	one 12.5-mm AA
Maximum travel speed	50 km/hr
Maximum range	450 km
Gradient	62.5 percent
Vertical obstacle	0.7 meters
Trench	2.7 meters
Fording depth	1.2 meters
Ground clearance	0.45 meters

The fire-control vehicle is the core of the entire weapons system. Its main task is to receive information from the forward deployed reconnaissance vehicle, including target location and calls for fire. It then distributes fire according to instructions from superiors, meteorological data, and various computer calculations. Both the fire-control vehicle and the forward deployed reconnaissance vehicle are modified versions of armored transport vehicles.

Inside each fire-control vehicle is a battalion (company) fire-control computer, a firing-parameter display, a printer, and communications equipment. The fire-control computer can calculate the various firing coordinates and adjustment parameters, use a wire or wireless system to transmit data or voice messages to forward deployed reconnaissance vehicles, command vehicles, self-propelled guns, and meteorological stations, and it can save or record orders to fire as well as the position coordinates of reconnaissance vehicles, self-propelled guns, or targets.

The main task of the forward deployed reconnaissance vehicle is to determine the position coordinates of targets, observe where fire falls, give damage assessments, and report this information to the command vehicle.

The reconnaissance vehicle has a laser rangefinder (with a range of 150 to 10,000 meters and an accuracy of plus or minus five meters), a satellite position finder receiving device, a computer, and a radio (communications radius of 35 km or greater).

This system's fire-control vehicle and reconnaissance vehicle can also be used with other types of 155-mm gun-howitzers to form new combat systems.

**2d Artillery Logistics Technical Modernization**

*91P30129A Beijing JIEFANGJUN BAO in Chinese  
27 Feb; 1, 6, 11 Mar*

[Article by Zhang Jiajun (1728 1367 6511) and Zhu Jianmin (2612 1017 3046): "Distance To Go Is Decreased by Struggle"]

[27 Feb 91 p 2]

[Text] Part I

Perhaps people may remember the heroic demeanor displayed by our Army's Strategic Missile Force in their first public appearance at the troop review held in front of Tiananmen Square for the 35th National Day celebration.

People will then find it hard to believe that, at that time, the logistical support system for this grand military and national modernized force was relatively backward and to a great degree unadapted to modern weapons and equipment.

Faced with this disparity, the Second Artillery Logistics party committee became intensely conscious of the urgent situation and heavy responsibility.

When all is said and done, the era of reform has instilled courage and resourcefulness in people. After deep investigation and repeated demonstration, they finally came to invoke strong words for our age:

"Science and technology awakens logistics," "modernize science and technology."

Having a goal means having resolution, having resolution means having a method.

The science and technology system is not on track. This is a thorny problem. But even if it becomes more difficult it must still be corrected because it is the key to the success or failure of "science and technology awakens logistics." Therefore, a "Reform of the Science and Technology System" feasibility study report was passed after full review and consultation with specialists. At a Second Artillery science and technology conference in late 1985, the leadership formally announced: the Second Artillery Logistics science and technology work which had been administered by the Technical Armaments Bureau in the past would now be administered by the Logistics Department.

A science and technology system has been formed, but the organization cannot be enlarged; what should be done? "Internal restructuring." The Logistics Command, known externally as the Science and Technology Training Office, took overall responsibility for the Second Artillery's science and technology work. Logistics departments at all levels established science and technology leadership groups, and divided the work of special administration of science and technology among each leader and comrade. At the same time, the Second Artillery Logistics Department established a science and technology learning committee.

What is to be done about the lack of personnel skilled in science and technology administration work? "Crash training." Forty cadres in charge of logistics science and technology work came from different units assembled in Beijing to hear lectures by the country's and Army's topnotch specialists and professors.

Where will the funds for scientific research come from? One morning the entire science and technology equipment office of the General Logistics Department heard a report by comrades from the related offices in the Second Artillery Logistics Department. All the leaders

and comrades were quite taken with and infected by the report. Thereafter, the channels for scientific research funds were opened, and for that year the Second Artillery Logistics received 500,000 yuan in funds.

The Second Artillery Logistics Department does not have a research center, so where will the skilled personnel come from? Relying on the strength of the masses, they are instituting "open-door management of scientific research." Uniquely attractive and inspiring policies and measures have subsequently appeared.

This set of changes ensued so rapidly, with such depth and impact that it seemed the Second Artillery which had been silent for so many years had suddenly been infused with vitality. After passing through slow and hesitant times, our Army's Strategic Missile Force's Logistics finally opened its wings in an awe-inspiring display.

[1 Mar 91 p 2]

[Text] Part II

The two major problems that have been encountered during the Second Artillery Logistic's strengthening of modernization construction are limited funds and a shortage of technicians. In light of this situation, the Second Artillery Logistics has followed a path of relying on the masses to carry out scientific research.

During a five-year period, the Second Artillery Logistics system has achieved various scientific and technological results in more than 600 projects. Among these projects, 142 have won state and military scientific and technological progress awards, four have won state invention awards, 12 have been awarded state patents, and 32 different projects have participated and won awards at exhibitions both in China and abroad that feature significant scientific and technological achievements.

During this five-year period, 51 percent of all cadres in organs of the Second Artillery Logistics Department engaged in scientific research and 17 cadres were awarded certificates for achievements in scientific research. The number of sections and offices engaged in scientific research represents 64 percent of all sections and offices in the logistics department, and of these, nine achieved significant scientific and technological results in two projects.

How did the Second Artillery Logistics Department mobilize the masses to engage in scientific research? A strong sense of responsibility acted as a catalyst for their enthusiasm and energy. By using various methods, they conducted education on modernizing logistics throughout the logistics system in a big way and aroused everybody's willingness to participate. They carried out an extensive campaign of soliciting topics which quickly attracted the attention of several thousand people from departmental organs and units.

Near the end of November 1990, several successive days of strong winds in Beijing caused the people to complain. One night about 0100 or 0200, a middle-aged man carrying a pile of materials in his arms trudged through the piercing cold wind towards the Second Artillery's dependent compound. His name was Chen Chuanyu [7115 0278 3768], chief of the Second Artillery Logistic's ordnance section. This section, that has an authorized strength of only three people, besides performing the functions of safeguarding and managing the ordnance for the Second Artillery Corps, also concerted its efforts and achieved results in scientific research in the following three projects: maintenance and repair bluing vehicles, third-generation constant-temperature blackening liquids, and software for ordnance work management systems. Chen Chuanyu is also the head of the newly established Second Artillery Metal Surface Treatment Technology Research Institute. For several years he worked virtually day and night. When some cadres asked why he put himself through this, Chen replied, "If we do not work this way, how can we expect modernization to be carried forward?"

One day in May 1988, a nurse quietly opened a door in a ward of People's Liberation Army Hospital 304. Chang Liangcai [1683 5328 2088], an aide in the Drug Inspection Section of the Second Artillery Medical Department walked to the front of a bed and said in an emotional voice, "Section leader, I have brought you the scientific and technological achievement certificate awarded for the radiation protection and monitoring vehicle." The seriously ill person laying in the bed was Li Hongshi [2621 3163 4258], section leader of the Second Artillery Medical Department's Drug Inspection Section. He took the certificate, looked it over, and murmured, "I have finally seen it, when I recover there are still several scientific research projects I want to work on." In putting full effort into this project, Li Hongshi encountered many difficulties and suffered many hardships. In 1987, Li was diagnosed as having lung cancer just as headway was being made on the major problems of the radiation protection and monitoring vehicle. He concealed his medical condition and continued to work. He did not admit himself into a hospital until it was impossible for him to continue working. Not long after receiving the award certificate, Li Hongshi passed away.

There are many other comrades like Li Hongshi, such as Wang Yanjie [3769 1693 2638], head of a certain environmental inspection institute of the Second Artillery, who sacrificed his life for scientific research at the early age of 43. This vital new scientific and technological force of the masses is painting a rosy picture for the modernization construction of the Second Artillery Logistics.

[6 Mar 91 p 2]

[Text] Part III

Modernizing logistics undoubtedly requires personnel skilled in high technology. However, since the Second

Artillery Logistics Department does not have its own research center and doesn't even have high-tech personnel, what can be done?

The answer from the Second Artillery Logistics Department is that we don't have personnel skilled in high technology, but the Army as a whole does, and society does. In our scientific research activities, we must open up doors in all directions and institute open-door management of scientific research.

Thereupon, near the end of 1987, an open call for bids on a group of key research task projects went out from Beijing's Second Artillery Logistics Department to the whole Army and society, sounding the first volley in open management of scientific research. The results were extremely good. More than 50 research units and several hundred scientific research personnel responded eagerly to the bids. A group of the most pressing key scientific research task projects quickly found homes.

Success is the greatest inspiration. They again actively explored new avenues in open-door management of scientific research.

While giving play to the role of different professional departments, delegating authority to professional departments, allowing the professional departments to propose scientific research topics, and searching out scientific research units or cooperative research units, the research administrative department itself is responsible only for verifying scientific research projects, checking results, and arousing the scientific research initiative of the professional departments. The bids are very flexible. As soon as the policy was announced, in a bustle, different departments mobilized and the administrative departments became very busy places. For example, the propellant waste-treatment vehicle was successfully developed through a cooperative effort in which the Second Artillery Logistics Department's Environmental Protection and Afforestation Office took the lead, the Second Artillery Engineering Design Research Institute played the principle role, and the Research Institute of the Chinese Academy of Medical Sciences' Institute of Hygiene, Qinghua University, the Environmental Chemistry Research Institute of the Academy of Sciences, and 10 other research units played a part. At a scientific technical products appraisal and examination meeting, one specialist said: "The Second Artillery was able to capture a group of key scientific research projects on leading domestic and international technologies because they were adept in building contacts with specialized research units and noted specialists and professors, obtaining these people's participation in their scientific research activities."

Being adept in making contacts and winning over noted specialists and professors to join their own research group has been their successful experience. The "in situ hydraulic pressure systems test instrument" newly developed by the Ordnance and Mechanics Bureau shook up a world-renowned hydraulics technology research unit.

At the request of the State Agricultural Mechanics Research Institute, the Beijing Hydraulics Institute and other research units, and under the specific guidance of China's famous hydraulics specialists, Professors Zhu Xiaoyi [2612 2400 3015] and Yi Xinqian [2496 2450 0051], this instrument was successfully developed using the newest hydraulic systems technology in the world.

[11 Mar 91 p 2]

[Text] Part IV

The effect upon scientific research of the promotion and application of scientific and technological products is often overlooked by people, to the point that the phenomenon of "first developing, second exhibiting, third putting into storage" is sometimes heard of.

In the process of modernization through science and technology, the Second Artillery's Logistics Department has emphasized the "welding together" of research and application, causing more than 80 percent of technological achievements to be quickly transformed into combat power and productive power.

Five years ago, when scientific research was first beginning, Second Artillery Logistics Department already was stressing the integration of research and application.

It started out by providing strong support for organization, management, and policy. It established the Second Artillery Technical Development Office. It required implementation of the two linkups, incorporating the concept that research plans must take into account promotion and application. It implemented the linking departments administering research plans and end-user departments, and the linking of research units and user units. All topics without obvious end-user units and promotional ideas or those projects that had already scored achievements but had no promotional application prospects were uniformly removed from the plans, were not funded, and did not receive awards.

Second Artillery Logistics research projects can be divided into two large categories: specialized equipment for logistical support and military-civilian general use projects. The Second Artillery Logistics Department has different means and measures of promotion for the two different types of projects.

In regard to payoffs from new technology and equipment, it adopted effective means in actively striving for adoption for use, for expanding the scope of experimentation, and for direct promotion by the appropriate department. This resulted in the successes of the experiments being rapidly transformed into combat power. In five years, 19 major categories of products and more than 40 items entered into the Army's logistical equipment system. The 12,000 new pieces of equipment promoted in the Army greatly enhanced military efficiency and economic efficiency. The Second Artillery Logistics Department's level of modernization was constantly improved.

With respect to promotion of military-civilian general purpose products, they placed the emphasis on exploiting technology markets and promoting the commercialization of technological gains. Technological gains in the form of products enter the market, breaking through the stale situation of relying solely on administrative means to promote technological results, and thus enhancing the efficiency of application. Indeed, based on this understanding, their technology market management network has grown and their avenues for promoting technology have widened. In November 1987, the First International Exhibit of Military Logistical Equipment and Technology was held in the Beijing Exhibition Hall. Among the more than 2,000 articles displayed by 130 exhibitors from countries all over the world, the Second Artillery Logistics' "propellant waste treatment vehicle," "radiation sample monitoring

vehicle for health protection," "WD-10 polluted water treatment device," and 20 other exhibits caught people's attention and attracted buyers from many countries. In recent years, targeting domestic and international markets, they have actively participated in technological and new product exhibits and exchange activities. Eight of their new products received gold and silver awards at large-scale exhibits internationally and at home, bringing along visible economic benefits.

As we were concluding our report on our visit to this group, the chief of the Second Artillery Logistics Department, Guo Qingfu [6753 1987 1381], said, "In the pursuit of military modernization, our ship of technology has only just set sail. Yet there is one thing for sure—we have proceeded correctly by taking the path to modernization through technology."

## CENTRAL-SOUTH REGION

### Interview with Hubei Governor, Guo Shuyan

91CM0357A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 222, 16 Mar 91  
pp 38-44

[Article by Chang Hua (4545 5478): "Hong Kong Invites Visitor To Strengthen Hubei-Hong Kong Cooperation"]

### [Text] Hubei Governor Leads Delegation on Visit To Hong Kong, First Time In History for Hubei

In March 1991, Hubei governor, Guo Shuyan [6753 2885 6056], personally led an economic delegation on a visit to Hong Kong. This is the first time in the history of Hubei. Ten months after assuming the governorship of Hubei, Guo Shuyan selected Hong Kong for his first visit, indicating that Guo Shuyan and Hubei Province attach a great deal of importance to Hubei-Hong Kong cooperation.

What is surprising is that, on the second day of his Hong Kong visit, 5 March 1991, Hong Kong governor, Sir Wilson took the initiative to invite Guo Shuyan to the Hong Kong governor's mansion as a guest and talked freely of Hubei-Hong Kong cooperation.

On the afternoon of the third day of the lunar year, Guo Shuyan received this reporter for a special interview.

### Hong Kong Occupies An Important Place in Hubei's Opening to the Outside

Guo Shuyan said that Hubei and Hong Kong have a long tradition of association. Working to develop and expand bilateral cooperation is an important goal of his delegation's visit to Hong Kong and a focal point for future expanded Hubei opening to the outside. Hong Kong is an international financial, trade, and information center. It has a clear superiority in a number of areas, including finance, trade, industry, tourism, communications and transportation, and information talent. But Hubei also has its strong points. Improved bilateral cooperation between Hubei and Hong Kong and learning from one another's strong points to offset weakness will not only aid Hubei's development, but also will help Hong Kong to prosper.

### Hong Kong Is Hubei's Greatest Cooperative Partner

Guo Shuyan said that the Hong Kong-Macao region has all along been Hubei's greatest cooperative partner in its contacts with the outside. Hong Kong and Macao investors make up 75 percent of the investments in the over 280 "partially or wholly foreign-owned" enterprises. Forty percent of the total \$1.07 billion in export trade was directed to the Hong Kong-Macao market or transited through Hong Kong, higher than the national average ratio.

Guo indicated that the highly effective cooperation between Hubei and Hong Kong has given important impetus to Hubei's economic development.

### Hubei's Opening to the Outside Has Developed Greatly

When talking about the actual achievements of Hubei opening to the outside, Guo Shuyan said that Hubei presently has initiated economic, technological, and trade contacts with over 120 countries and regions. Hubei Province and eleven counties and cities in the province also have established friendship relations and economic and technological cooperation relations with 26 states, cities, and regions in ten countries, including the United States, Japan, Britain, France, the Soviet Union, and Romania. In 1990, total trading port exports for Hubei were \$1.07 billion, a 673 percent increase over 1978; various forms of actual foreign investment contract utilization amounted to \$867 million; and over 90 new "partially or wholly foreign-owned" enterprises were added, for a total of over 280. In addition, a batch of advanced technology and equipment projects was introduced.

### Hubei's Prospects for Opening to the Outside in the 1990's Are Even Broader

When talking about arrangements in the plan for the next 10 years and in the Eighth Five-Year Plan, Guo Shuyan said that Hubei will concentrate major effort of its economic development on developing and improving agriculture and give priority to building infrastructure in such areas as energy, transportation, and communications; and improve industry based on raw and processed materials and reorganize and reform the processing industry. Hubei has planned 77 billion renminbi in local investment for the Eighth Five-Year Plan, much higher than the average for the Sixth Five-Year Plan and the Seventh Five-Year Plan, and a considerable portion will be used for projects established with foreign capital. A total of \$1.77 billion in foreign capital will be used.

Hubei, as an old industrial base, has 661 large- and medium-sized key industries, including the Wuhan Steelmill, the Second Automobile Factory, and the Gezhou Dam water control project, forming a total industrial production system with the main categories of metallurgy, machinery, electronics, electric power, chemical industry, light industry and textiles, construction materials, automobiles, and shipbuilding, a rather large accumulation of assets, and a great many transformation projects.

### Foreign Investors Have a Great Many Projects To Choose From in Hubei

Guo Shuyan indicated that in the next few years they will strive to make outstanding progress in using foreign investment to accelerate key development. The province not long ago selected over 70 projects that are rather mature in several aspects and give a good return on investments to publicize in Hong Kong newspapers. This group of projects is made up mainly of projects including

the restructuring of the Wuhan Steelmill with an annual production of 7 million tons in both iron and steel; expansion of the Jingmen 400,000 ton molten wax decomposition and follow-on processing industry, the Yichang polyester chipper [factory], and the Huaxin cement factory; expansion of the 1.5 million tubeless tire Wuxian tire [factory] and the Yichang fiber glass factory; the Huanggang floating glass factory and some 19 projects to equip 300,000 automobiles.

Guo Shuyan said that there are very broad areas in Hubei suitable for Hong Kong, Macao, and Taiwan investors. In addition to the key projects already publicized in Hong Kong described above, investors also could select projects that suit them from numerous areas such as developing tourism resources and developing an infrastructure in communications, energy, and telecommunications; in such tertiary industries as commerce and consultation; and in such industries as machinery, metallurgy, construction materials, automobiles, electronics, chemical industry, medicine, textiles, printing and dyeing, clothing, and light industry.

Guo Shuyan said that the composition and form of the foreign investment could be labor intensive or technologically intensive. They can be "three kinds of partially or wholly foreign-owned" enterprises or "import processing and compensation trade" projects. In external trade, we welcome the firm to do business directly and also hope that the firm will serve as a middleman to provide information and professional contacts and help the province develop overseas markets. Investors' and brokers' legal rights and interests will be fully protected in accordance with international practice and national laws.

#### Investors Can Seek a Profit

When discussing whether investors could or could not make a profit, Guo Shuyan said that 70 percent of the "three kinds of partially or wholly foreign-owned" enterprises already approved were achieving satisfactory economic benefits. According to statistics, the value of output and foreign exchange earned by "three kinds of partially or wholly foreign-owned" enterprises in operation in 1990 on average increased 43 percent and 39.6 percent, respectively, over the previous year, and some of the enterprises led the nation in their industry.

Guo Shuyan stated that Hubei has such advantages as grains, foods, high-quality textile cotton; petroleum, iron, copper, phosphorus, gypsum, and rock salt deposits; and high-quality paint and cement resources. It is crossed from north to south by the Beijing-Guangzhou and the Jiaozuo-Zhicheng railroad lines and east to west by the Xiangfan-Chongqing, Han-Dan, Dazhi-Shashi, and Wuhan-Dazhi railroad lines. The entire province has a network of 45,000 kilometers of public highways. The Changjiang and the Han River provide water transport to the sea. There are air connections with all of the important cities in the country and Hong Kong. Hubei is technologically and culturally developed and is favored

with 63 institutes of higher education and over 400 scientific research institutes and 540,000 scientific researchers, educators, and other talented people with every type of scientific and technological ability. It also has the advantages of a high-quality labor force and cheap prices. So, a number of raw and processed materials can be supplied and processed on the spot. Several technical problems can be solved on the spot and the labor force can be hired very cheaply on the spot. When businesses come to Hubei to invest, they benefit from comprehensive accounting and can achieve rather good economic benefits.

#### Hubei Guarantees Foreign Business Profits

In talking about the investment environment, Guo Shuyan stated that we should say that Hubei's soft and hard foreign investment environments have improved rather greatly in recent years. In the hard environment, 71 counties and cities throughout the province have opened up direct dial telephone [lines] and have speeded up construction of the Wuhan International Airport, the Wuhan-Huangshi Changjiang highway bridge, and the Qingjiang Gehe hydroelectric power station, as well as the Hanchuan, Yangluo, and Ezhou coal-fueled power stations, and are striving to open the Changjiang navigational channel and Hankou port to foreign ships soon. In the soft environment, they have further improved the people's open-mindedness, especially that of officials at every level throughout the province. The provincial government is conducting training of the principal local, city, and prefectural leaders and people in charge of departments directly subordinate to the province to broaden their views and their thinking.

The Hubei provincial government, to further improve the preferential policy toward investors, in 1990 conducted a survey of all of the over 180 "partially or wholly foreign-owned" enterprises to solicit their opinions, and on the basis of this, reformulated and reissued "Some Hubei Regulations on Enterprises With Investments From Foreign Businesses and Overseas Chinese and Compatriots From Hong Kong, Macao, and Taiwan." These regulations, with a total of 80 articles, totally sum up current investment policy and have the following three characteristics: They simplify vertical approval procedures for "three kinds of partially or wholly foreign-owned" enterprises; conduct concentrated discussions with leading groups in the province using foreign investment; and once approved, centralize the signing. They broadened the policy on investors' on site user fees and reduced or eliminated local income tax. They have adopted new measures that are more convenient for the "three kinds of partially or wholly foreign-owned" enterprises in recruiting, hiring, and firing employees and help to improve management of the staff and workers on the premise of completely guaranteeing the independent authority of the enterprise.

In addition, they are concentrating efforts on initial work on the first group of economic development zones. The state has approved the establishment of a new national



technology development zone in Wuhan. In 1990 the province also established an economic and technological development zone at Ezhou Gedian from local investment, benefitting from the province's preferential policy. At the same time, because an agreement was formally signed by the Hubei Second Automobile Factory and the French Citroen Company for a 300,000 automobile project, the provincial government has requested that the State Council establish automobile production development zones at the Hanyang Dunkou automobile assembly site and the Xiangfan engine production site and is requesting comparable preferential policy for the special economic zones and the coastal development zones.

#### **Hubei This Year Has Six Major External Activities**

According to plan, this year Hubei has six major external activities:

1. Hubei governor, Guo Shuyan, is leading a delegation to Hong Kong in March.
2. Within the year, they will hold large-scale import-export trade talks in the capital, Wuhan.
3. On 10 October, they will hold commemoration activities for the 80th anniversary of the 1911 Revolution at Wuchang, the site of the first uprising of the 1911 Revolution.
4. In the latter half of the year, they will hold the Wudang Arts Festival at the automobile city, Shiyan, at the foot of Mount Wudang.
5. In the Fall, they will hold the International Ping Pong Festival at Huangshi, the site of the national ping pong training center.
6. On 26 April, they will conduct activities at Suizhou the native place of the martyr Shan Yandi [1472 3508 1593]. Over 400 overseas Chinese from North America and elsewhere will be returning home to perform rites in honor of their ancestors.

Guo Shuyan welcomes people from Hong Kong, Macao, and Taiwan, and overseas Chinese compatriots to visit Hubei on this occasion and join in these activities.

#### **Born in Zhenping, Henan and the Orphan of a Martyr**

Guo Shuyan was born in Zhenping County, Henan in October 1935. He is now 56 years old.

When Guo Shuyan was eight years old, his mother contracted tuberculosis and died. His father, Guo Xiangsheng [6753 1651 3932], in earlier years had graduated from the Henan Arts Normal School and was skilled in instrumental music, chess, calligraphy, and painting. Later he joined the underground Communist Party and was an instructor in the Kuomintang armed forces. In 1941, after the Wannan [4111 0589; Southern Anhui] Incident, he joined the New Fourth Army and assumed the office of deputy trade bureau chief for the Edong

[6759 2639; Eastern Hubei] Military District. Later, under the leadership of Liu Zihou [0491 1311 0624], he was appointed Chinese Communist Party secretary for Yuan'an Center County. In May 1947, he was betrayed by a traitor and was arrested and imprisoned in the Zhenping jail. But he remained faithful and unyielding. In November of that year, as the rumble of artillery fire from Chen Sai's [7115 6357] army's liberation of Zhenping spread, the Kuomintang hanged Guo Xiangsheng with a rope and smashed his skull with a pickaxe. Thus Guo Shuyan's father died a hero's death. Three days later, Guo Shuyan found his father's remains and in his pocket he discovered a two-stanza poem, entitled "Ni Gan Shi Yan" [2362 1949 2514 6056] that his father had written on thin paper. Guo treasures it to this day and from time to time takes encouragement from it. After his father was martyred, Guo Shuyan became an orphan and was cared for and raised by the Chinese Communist organization.

#### **An Overseas Student in the Soviet Union, He Had Two Inventions Patented that Spread Throughout the Soviet Union**

In 1952, Guo Shuyan passed the examination for admission to Nankai University's physics department. In July 1953, he also was selected to be sent to Beijing to study in the special Russian language training school in preparation for studying in the Soviet Union. In July 1954, Guo Shuyan went to the Soviet Union to study metal casting at the Soviet Ural Industrial Institute. While he was studying in the Soviet Union, Guo Shuyan studied energetically and received patents for two inventions, the automatic measuring sand and water separator and the molding sand fuel dipper automatic distribution system. They were widely used in the Soviet Union and from this Guo acquired the title "master casting engineer." In September 1959, Guo Shuyan had attained the outstanding achievement of a full five in all of his assignments leading to a red diploma, symbolic of total excellence in his studies.

In March 1957, Guo Shuyan joined the Chinese Communist Party.

#### **Worked Eight Years in Shenyang, Established a Family in the Northeast**

In the latter half of 1959, Guo Shuyan returned home to work at the Shenyang Casting Research Institute of the Mechanical Science Research Institute of the State Council's First Ministry of Machinebuilding. He worked there 18 years.

Guo Shuyan was department head and vice president at the Shenyang Casting Research Institute. This is where he began working when he returned home and where he married and established a family, and afterwards it was here that he was gradually promoted. It also was here that he suffered during the "Cultural Revolution." Thanks to the fact that at that time they were emphasizing "good class background" and he was the descendant of a martyr, he was released after one year.

### **Came To Beijing In 1978 as Chief Engineer**

In April 1978, Guo Shuyan was transferred to Beijing as chief engineer and vice president of the Chinese Academy of Science High Energy Physics Research Institute in charge of the Beijing High Energy Proton Synchronized Accelerator Testing Center. In 1982 the center was converted to make positive and negative electronic colliders. Guo Shuyan then was transferred to the Chinese Academy of Science and put in charge of the science department. In July 1982, Guo was promoted to vice chief of the National Science Commission Forecasting Bureau. Beginning in January 1983, he was appointed deputy head of the State Council's science and technology leading group office.

### **Appointed Vice Chairman of National Science Commission in 1985, Initiated New Law To Aid Poor Areas Extended Throughout Nation**

In the few years after Guo Shuyan came to Beijing to work, his show of talent was appreciated and he received successive promotions. In January 1985, he was promoted to vice chairman of the National Science Commission and achieved notoriety in Chinese science and technology circles.

While he was on the National Science Commission, Guo Shuyan helped Chairman Song Jian [1345 0256] take charge of the reform of the science and technology system and scientific and technological support to the poor. He trekked all over several poor old revolutionary areas such as Dabie Shan, Jinggang Shan, and Yan'an. In the five years that he worked on support to poor areas, he, along with his colleagues on the National Science Commission, came up with a new law to support poor areas that developed mainstay regional industries and fundamentally changed the face of poor areas.

### **Elected Hubei Governor in 1990**

In March 1990, after Guo Zhen'gan [6753 2182 0051], the former governor of Hubei Province, was transferred to the Chinese People's Bank as vice president, Guo Shuyan became acting governor of Hubei Province. On 4 May 1990, at the Third Session of the Seventh Hubei Provincial People's Congress, Guo Shuyan was formally elected governor of Hubei Province with 782 votes for, two votes against, and three abstentions. In the Chinese Communist Party, he also was appointed deputy secretary of the provincial committee, and assumed the heavy responsibility of leading Hubei, this central mainland province of 54 million people.

In March 1991, he was chosen as a deputy to the National People's Congress in a by-election.

### **In 10 Months in Office He Traveled Throughout Hubei**

He believes that being governor it is crucial to thoroughly investigate and study in a down to earth manner and formulate an economic development plan that suits Hubei's actual situation. Although Guo had only been in office 10 months, he had already run to all of the

localities, cities, and prefectures except Jingmen and over 30 counties to understand how policy was being implemented and the economy was developing. He solicited opinions and suggestions from the masses and from leaders at every level, especially intellectuals, experts, and scholars, about provincial economic developments. Guo and his colleagues integrated the national industrial policy with the province's actual situation, and beginning with making full use of excellence, they established and conducted "a long line" of economic and technological developments to readjust and perfect the industrial structure and promote professional and technological reform and development, and repeatedly tested them.

### **10 Departments and Bureaus Write to the Provincial Government About Their Inspections**

At the end of 1990, Guo Shuyan represented the Hubei provincial government in assigning duties to rectify unhealthy tendencies and stipulated that all departments and bureaus directly subordinate to the province report on the time limits of their rectification plan. But 10 bureaus did not report on time. So, Guo Shuyan issued a circular criticism at the provincial organization cadre meeting. As a result, these 10 departments and bureaus all wrote to the provincial government about their inspections. One department convened six conferences, gave out gifts, and ate and drank on a grand scale. After Guo Shuyan found out, he immediately asked the control department to investigate and ordered the recipients of the gifts to return the money and circulated a notice to the whole province. Some local municipal departments resold state allocated snail fever medicine, seeking exorbitant profits, and built houses. Guo Shuyan dealt with it severely. To have strict administration, Guo Shuyan personally took charge of control department work. In 1990 alone, 3,216 people throughout the province received government discipline, 134 of them officials at the section level and higher.

Guo Shuyan said that his rigorous demands on cadres actually were an expression of his responsibility to the people. Naturally, he asks people to unite with and care for those cadres who recognize their mistakes and correct them quickly.

When Guo Shuyan talks about the lives of the masses in Hubei and about the 5,000 people throughout Hubei who still suffer from the advanced stages of snail fever, he feels extremely bad. He has gone to areas such as Qianjiang and Yangxin where there is a serious epidemic of snail fever and visited a number of people in the advanced stages. Giving emergency treatment to these people in the advanced stages is his responsibility. To cure one person in the advanced stages required at least 5,000 renminbi. It could not be gotten in the province in a short while. Guo Shuyan discussed with relevant departments how it could be done and decided to establish an emergency fund for people in the advanced stages of snail fever and took the lead in contributing one

month's salary. At the same time, the province's snail fever prevention funds were restored to the highest level in history.

#### **Old Peasants Recognize Governor Guo**

Guo Shuyan said that it is very dangerous for a leading cadre to divorce himself from the masses. He told this reporter that everyday he receives 120 letters. Once when he was inspecting Yunyang in western Hubei, Guo went to a peasant house deep in the mountains. He saw that the three children in this family did not go to school. When he asked, it turned out that the school fees were high and they could not get tuition. The school required each child to give three bamboo brooms a week. As a result, the bamboo grove behind the house was completely cut down. Guo Shuyan asked the Yunyang district party secretary, Wang Qigang [3769 0796 0474], to take care of this matter and resolve the various issues involved. Later, after Wang Qigang had solved this matter, he wrote a special report.

#### **University Students Want To Chat With the Governor**

Guo Shuyan has not worked long in Hubei, but he does not engage in empty talk and is amiable. So, a great many people want to write him letters to make the situation known and provide him with ideas and suggestions on developing the Hubei economy. He also answers letters as much as he can and does his best to satisfy their reasonable requests. In October 1990, 13 university students from Huazhong Engineering School wrote Guo Shuyan a letter and wanted to talk with him about motivation for study and life's values. Guo Shuyan immediately replied. In the discussion he talked about his intentions, motivations, and way of thinking about study when he was a university student. Guo did not brag, make small talk, or engage in empty talk. The students had a pretty good impression of him.

In November 1990, a chief engineer from a prospecting brigade of the Hubei Provincial Mining Bureau wrote Guo a letter informing him of their difficult life and arduous work, working in the outdoors year around and difficulty being reunited with their families. This chief engineer said, "We do not want you to help us solve any hardships. We just hope that you will come and visit us and give us encouragement." When Guo Shuyan talked about this matter he was very agitated. He said, "Our intellectuals and engineers and technical personnel are really very good. After I received the letter, I first sent a section chief to solve their specific problems." After the section chief understood [the situation], he briefed Guo.

Guo Shuyan appropriated 300,000 [renminbi] from the governor's discretionary fund to solve their difficulties. Guo Shuyan said, "You have to be realistic in handling affairs. You cannot solve all problems. What use is it to run around making empty pronouncements.?"

#### **Guo Shuyan Likes Music and Swimming**

When you walk into Guo Shuyan's residence, the vase on the round table in the parlor has a bouquet of green-leaved, golden-flowered chrysanthemums. On the wall of the room hangs the two-stanza poem "Ni Gan Shi Yan" left by his father. In one corner of the room is a taperecorder. Next to the taperecorder is a pile of cassette tapes, the works of Tchaikovsky, Brahms, and Schubert. Guo Shuyan told this reporter that he works 15 or 16 hours a day. He has cultivated the habit of working late into the night for many years. Every time that he walks into the room, he turns on the taperecorder and lets the music fill the room. He likes to play music and work to the music. He likes classical music and symphonic music, and he likes light music even more.

Guo Shuyan walks each evening. He wears a pedometer. Originally he planned to walk 10,000 paces every day. But this is very hard to accomplish. He likes to swim. He can swim 800 meters in still water. He likes even more to swim underwater on windy days. When he cuts through the big waves, he feels good.

Guo Shuyan not only speaks Russian well, his English is not bad either.

#### **Guo Shuyan's Family**

When he talked about his family, a smile spread across Guo Shuyan's face. He told this reporter that his wife, Fan Xinwan [5400 2450 3834], is a native of Changsha, Hunan. This year she is 52 years old. She is a graduate of the Beijing Aeronautical Engineering Institute where she specialized in rocket propulsion. She was originally an engineer at Shenyang's Xinguang Machinery Factory. They were married in Shenyang in 1962. After Guo Shuyan was transferred to Beijing, his wife was later transferred to the High Energy Research Institute to work in the mechanical aspect of research design. After Guo Shuyan was transferred to become governor of Hubei Province, his wife was transferred to the Science and Technology Daily agency and was responsible for that newspaper's southern distribution. She travels back and forth between Beijing and Wuhan.

Their oldest daughter is in college studying food engineering and their younger daughter is now in a senior middle school affiliated with the Normal University.

**Biodata on Yang Side**

91CM0242A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 220, 16 Jan 91  
pp 64-66

[Article by Chen Jui-ko (7115 3843 3784): "Yang Side To Continue To Play Important Role in the Upcoming Unification Talks Between the Nationalists and the Communists"]

[Excerpts] [Passage omitted] Yang Side, by now 70 years old, will continue to play an important role as part of the team from Communist China that will work on the Taiwan problem.

Yang Side was born in 1921; he is a native of Teng County in Shandong Province. In 1938 he joined the Eighth Route Army and also the Communist Party. During the War of Resistance Against Japan, he was a guerrilla fighter in his native area, and was in charge of the political department of Eighth Route Army's 115th brigade. He was head of the section for working among enemy workers—in charge of contacting personnel working for Japanese or puppet organizations and gaining their sympathy and support for the anti-Japanese activities of the Chinese communists.

After the victory in the war of resistance, the Chinese communists set up the Jiaodong War Zone in Shandong, with Xu Shiyu [6079 0013 0645] and Yuan Zhongxian [5913 0112 6343] as commander and deputy commander, and with Lin Hao [2651 3185] and Jin Ming [6855 2494] as political commissar and deputy political commissar. All this time, Yang Side served as head of the Liaison Section of the Jiaodong Military Zone. The official duties of the military's so-called liaison departments were more or less the same as those of United Front departments.

Later, when the East China field army was organized, Yang Side transferred to the 13th army group of the People's Liberation Army [PLA]. He worked in the political department, first as deputy head of the liaison department, and later as head. He also participated in the famous battle of Laiwu. The commander of the 13th army group was Zhou Zhijian [0719 1807 1017] and the political commissar was Liao Haiguang [1675 3189 0342]; its designation was later changed to the 31st Corps.

On 6 November 1948, the Huaihai campaign started. After the Kuomintang [KMT] army corps under Huang Botao [7806 0130 7290] was decimated, three-and-a-half KMT divisions belonging to the Third Pacification District and under the command of He Jifeng [0149 1015 3488] and Zhang Kexia [1728 0344 0204] surrendered. The troops that surrendered were combined with Communist troops from the Jianghuai area to form the 34th army corps, with He Jifeng in command and Zhao Qimin [6392 0796 3046] as political commissar. These troops formed part of the eighth division of the Third Field Army (commanded by Chen Shichu [7115 1102

3255], with Yuan Zhongxian as political commissar and Jiang Weiqing [3068 3262 3237] as deputy political commissar and head of the political department). Because of his long experience in Unified Front work in the military, Yang Side was transferred to the 100th division of this army group to become the deputy political commissar and head of the political department.

On 19 April 1949, on the eve of the PLA's forced crossing of the Chang Jiang, the British Royal Navy frigate "Amethyst" steamed up the Chang Jiang from Shanghai toward Nanjing. When this British warship, in an insolent show of military prowess, sailed not far from Jingyin on one of China's internal waterways, it exchanged fire with a PLA detachment on the northern river bank; this led to the 100-day long "Amethyst incident," which created quite an uproar. At that time, some of the troops occupying the northern river bank were from the Eighth Army Corps. Yang Side's superior officer, Yuan Zhongxian, political commissar of the Chinese communist's Eighth Army Corps, conducted negotiations with the British in his capacity as commander-in-chief of the PLA's frontline units.

After the Chinese communists liberated Nanjing, Yang Side remained at the Nanjing Garrison Headquarters as the deputy chief of its political department. He was later transferred to the post of divisional political commissar of the public security detachment of the East China military region. He also served as political commissar in an Air Force division.

In 1964 Yang Side was promoted to the rank of major general and received the "Independence and Freedom" medal, third class, and the "Liberation" medal, second class. After that, he was transferred to Beijing to work in the PLA's Central Political Department. Shortly afterwards, he was appointed deputy head of the liaison department in the PLA's Central Political Department (the department head was Xiao Hua [5618 5478]); at the same time he was appointed director of the Guangzhou Liaison Administration. Later he was again transferred, this time to be head of the political department of the Fuzhou Military Region (the commander-in-chief was Han Xianchu [7281 0341 2806]). From that time on, Yang Side became gradually involved in the work of developing contacts with Taiwan.

At the end of the "Cultural Revolution," Yang Side had already become head of the liaison department of the Central Political Department, and when the Communist Party of China's [CPC] Central Committee set up the Taiwan Affairs Office, he was appointed as director.

After the Third Plenary Session of the 11th CPC Central Committee, a change occurred in the Taiwan-related work of the CPC. On New Year's Day in 1979, the standing committee of the National People's Congress issued a "letter to our compatriots on Taiwan," proclaiming the great political principle of the peaceful unification of the motherland. On 30 September 1981, Ye Jianying [0673 0494 5391] issued the famous "nine

conditions of Ye," proposing talks between the KMT and the CPC on an equal basis, to accomplish the great undertaking of reunification. On 26 June 1983, Deng Xiaoping put forward the six-point plan, which would allow Taiwan to maintain a system different from that on the mainland after the intended reunification of China. In February 1984, Deng Xiaoping again summarized these ideas in the phrase "one country, two systems."

Following these proposals, the CPC showed many changes in all aspects of their relations with Taiwan, which had the effect of gradually relaxing the general atmosphere along the Taiwan Strait. Since the autumn of 1987, following the lifting of martial law on Taiwan, exchanges between the two sides have increased daily.

Adopting the "great political principle" in all Taiwan-related work of the CPC has been a decision made at the highest policy-making level in the CPC. However, to concretely enforce it, the work would inevitably have to be in the hands of the small working team on Taiwan affairs set up in the Central Committee. During the 1980's, outsiders have had little concrete, inside information on the Taiwan-related work of the CPC. However, some overseas Chinese with Taiwan connections would occasionally mention Yang Side's name in their conversations after returning from visits to Beijing. In addition to being dispatched to Hong Kong to participate in airline negotiations in May 1986, Yang Side appeared as an important member of the entourage accompanying Yang Shangkun (who held the important post of head of the CPC leading group for Taiwan affairs) when he visited the United States in May 1987. This clearly indicates the substantial position Yang Side occupies in all of the CPC's Taiwan-related work.

In 1988, to facilitate Yang Side's open participation in activities for contacting Taiwan personalities, he became a member of the Chinese People's Political Consultative Conference and a standing member of the Seventh Consultative Conference. [passage omitted]

### **Unconventional Analysis of Worsening Social Order**

91CM0375A Taipei TZULI WANPAO in Chinese  
9 Mar 91 p 17

[Article by Professor Liu Hsing-i (0491 1630 5030): "The Puzzle of Public Security"]

[Text] In April 1990, President Li, using social order as one reason, nominated President of the Executive Yuan Hao Po-ts'un and reorganized the cabinet. It was praised as a strong "social order cabinet." Under the precept of "strictly adhering to the law during troubled times," force was actively used to combat crime and even a large force of military police was employed. Indeed, during the past year, there were several major social order issues, for example, when civil authority was imposed on government employees legally carrying out their duties, and more and more brutal and coercive legal proceedings

were carried out. As the money game expands, the great disparity between rich and poor increases. This results in those who are without money but who are responsible for a large number of people to turn to crime. In addition, from small-scale activity, crime is beginning to become an organized "enterprise" with a precise division of labor and planned, "smart" operations, thereby increasing the difficulty of solving them. Furthermore, the problem of youth crime is becoming more serious. Violent crime in the schools is on the increase. Drugs, narcotics, and amphetamines are spreading unchecked. This is all cause for anxiety. Aside from this, after the lifting of martial law, seaports have become social order blind spots where criminals sneak out of the country, secretly smuggle in illegal guns, and bring mainlanders into the country. The increase in the spread of guns is a threat to public security. Mainlanders and foreign laborers who have sneaked into the country as well as fugitive soldiers carrying weapons are seriously affecting social order.

The administrators say that, to effectively check crime, it is necessary to mete out severe punishment. However, there are a considerable number of factors affecting social order. In addition to culture, religion, and morality, other factors such as political environment, economic background, gap between rich and poor, changes in social structure, fairness of legal proceedings, education, and values are all decisive and cannot be overlooked. If these basic issues are not resolved or are only settled by "force," then we will have a temporary cure not a fundamental one. We could even have social regression. The following are some views and suggestions from several standpoints on government (executive, legislative, and judicial) concepts and measures (heavy penalties, capital punishment), social activity and social order, police administration issues, the role of soldiers, and the misuse of reduced penalties.

#### **I. The law, severe punishment, and social order.**

Once the issues of crime and social order are mentioned, administrators immediately direct the discussion to "controlling our troubled times by strictly applying the law." Over and over, they propose drawing up special penal codes or public security laws to stiffen punishments, thereby to settle the problem of social order. It would seem that as soon as we had the legislation, the problem would be settled. But social order still would not be good, mainly because lawbreakers still would not understand the rule by law and know how to be law abiding. However, we know that, by using prohibitions and penalties to gloss over its incompetence, the government in power must bear most of the responsibility for social order problems. In democratic countries this constitutes reason for being driven out of office. In nondemocratic countries, it is otherwise. They still can exploit and manipulate instruments of the state and draw on the support of the military, police, and intelligence and security agencies to sustain their ruling position.

In fact, the main reason social order is bad is not because there are loopholes in the law or its provisions are imperfect. The provisions of the current law can be described as "numerous as the hairs on a cow." It is not only characterized by profusion but by chaos. For example, standard criminal law contains a penal code, a code for land, sea, and air, regulations covering the control of firearms, ammunition, knives, and weapons, and regulations covering the subjugation and punishment of bandits. Laws covering ordinary social order include regulations on investigation and elimination of hoodlums, penalties for violating police regulations, and regulations on rallies and demonstrations. Peace preservation measures include disciplinary law on juvenile incidents and public security and disciplinary regulations covering larceny. Other laws include the state security law and the law protecting those starting over.

#### **A. Limited deterrence of severe punishment.**

Legislative and judicial organs are also imbued with the severe punishment approach. However, severe punishment in itself is not a correct concept. Imposition of criminal sanctions, whether done legislatively or judicially, must correspond to the principle of related suitability. When legislative organs formulate criminal laws, the provisions covering the degree of punishment must conform to a rational concept of what is just. The punishment must be suitable. The degree of punishment for different crimes must conform to how serious they were. In other words, except where the appropriateness of the punishment has been specially designated for the crime, the punishment for differing crimes are to have a mutual suitability. For example, imposing a life sentence for infringing on property rights and punishing larceny more severely than murder would not conform to the principle of related suitability.

The main reason for advocating severe punishment is to deter. However, if we look at past experience, we can see that deterrence through punishment has not generally been as effective as visualized. Various type of major crimes such as murder in the course of robbery, kidnapping (abducting people for ransom), and killings hostages (abducting people for ransom and killing them) certainly have not disappeared or declined because of the punishments meted out under the regulations covering robbers, bandits, and thieves. This actual experience clearly tells us that, if we think we can simply rely on harsh laws and severe punishment to achieve social order, we absolutely cannot do it. Even though the provisions of the laws are severe, their deterrence is still limited. The deterrence of punishment is definitely not absolute. How strong it is must also take into account such things as economic, social, and political factors and value concepts. There are also people who think that there is nothing wrong with increasing the severity of punishment. This type of thinking is devoid of any sense of human rights and justice. The function of a penal code is not only to punish. It must also guarantee our rights. On the one hand, it undoubtedly guarantees that an individual's human rights and civil rights are not infringed illegally.

On the other hand, it guarantees that a criminal is not punished excessively or illegally so that he is punished appropriately.

#### **B. Suppression of crime and efficiency of law enforcement.**

Furthermore, our attitude toward suppression of crime is not entirely correct. Punishment, admittedly, functions as retribution and deterrence. Because of this, it does have the effect of constraining crime. In addition, we should not overlook the educational function of punishment. Laying particular emphasis on suppressing crime really is not a correct means, and in view of an imperfect penal code, prevention and elimination of crime definitely does not rely on what punishment is able to achieve.

With respect to the degree of punishment that our penal code allows, we belong to those countries that impose harsh punishments and penalties. The fundamental reason our social order is bad is not because our punishments are not strict. It is in the effectiveness of its implementation. If the rate at which we solve cases is high, even if the punishments are moderate, crime is not likely to be profitable. When criminal activities such as robbery, burglary, kidnapping, and extortion are "unprofitable" and "the loss outweighs the gain," there will be a comparable decline in the crime rate. On the other hand, with respect to deterrence, in addition to statutory and proclaimed severity of punishment, the courts and the legislature both play equally important roles in its administration. Habitually using severe punishment frequently causes administrators and the police to critically examine themselves less often or even not at all.

#### **C. The death penalty and its effect.**

Between 1979 and 1990, a total of 156 persons were executed by being shot. In 1990, the Supreme Court condemned to death 87 persons, 19 more than in 1989. The majority were murder, robbery, and kidnapping cases. Almost all were under 40 years of age, and one-third were under 25. This is worth looking at.

There is no doubt that punishment does deter crime. However, its deterrence is not absolute. There is a certain limit to deterrence. It does not work in all cases. In extreme situations, severe punishment can also have a reverse effect and run directly counter to its intended preventive effect. Take the most severe punishment, the death penalty, as an example. Fundamentally, it should have the strongest deterrent force. However, in a death penalty situation, the person who commits the crime knows that in the future when he is arrested he will undoubtedly have to die. As a result, he feels he might as well go on with what he has started and thus continues his criminal activity with even less misgiving. Because, either way he dies. For taking a life, he owes a life. However, if he is in a situation where "the more he does,

the more he earns," he will be encouraged to continue to commit bigger crimes, and social order will become even worse.

For example, the legislature and the judicial are being illogical where, in a hostage-taking situation, the culprit has to die even though he has released the victim. The victim not only loses his freedom and property because of the kidnapping, he is at greater risk of being murdered because of death penalty provisions. The original intent was for the law to protect people's interests (for example, safeguarding their freedom and property with respect to kidnapping). Instead, the law made it even easier for people's greater interest (their lives) to be infringed. This is not the kind of legislature and judicial ruling a wise person would adopt.

## **II. The link between social activity and social order.**

In a society which is gradually increasing people's rights, social activity of every type flourishes. It is impossible to avoid affecting the order of traffic and tranquillity. Long-time control and monopoly of the country's resources by the ruling party and mishandling of executive, legislative, and judicial rights of political dissidents and opposition parties have given rise to street activity for political demands. Military and police suppression, by using methods used against enemies, of rallies and demonstrations making political demands intensifies the conflict at these gatherings.

Executive agencies are declaring that, since social order is bad and the economy is in recession, we must strengthen the suppression of hoodlums to rectify social order. If, in the course of social activities, the public is incited to destroy things and engage in fights, this goes beyond the category of political activity and becomes criminal activity. However, it is certainly not because of this that they necessarily become hoodlums. We also cannot, for the purposes of preventing chaos, treat those who often take part in social activity as hoodlums. Whether or not violence that occurs during social activity results in breaking the law is a question of another level. Those who take part in social activity and hoodlums are in two different categories. We cannot confuse them.

Treating those who take part in social activity as hoodlums to penalize them might make them even more radical. Blaming bad social order on social activity and those who take part in it is irresponsible. Those in power cannot blame their setbacks on those taking part in social activity or on political dissidents. And, even less, should they use social order as a excuse for suppressing social activity. The majority of the central government's budget for police administration was used for "quelling violence." The majority of the 9,000 persons who were signed up by the police administration for training and to augment the police force have been used at rallies and demonstrations. This kind of mistaken direction makes it difficult for the police to be genuinely used for social order. In addition to the individual conduct that occurs

with respect to the fights and destruction that take place during rallies and demonstrations in the process of political liberalization, what is important to seek out is the origin of the what has happened to determine whether the laws are fair, whether they have been wrongly or incorrectly implemented, and whether those in power have abused their authority. We cannot only consider the superficial aspects of the conflict and ignore its basic origins.

## **III. Police administration and police discipline.**

### **A. Police jurisdiction and discipline.**

In approving requests for rallies and demonstrations, the police can only consider questions of order and traffic. The police must not be allowed to interfere with the topical and ideological demands that the rallies and demonstrations are making and use these as a basis for denying their permission. In effect, the police are responsible for maintaining order, not for passing judgement on opinions. If it is suspected that the purpose of a rally or demonstration is criminal, then that is the responsibility of prosecutors and judges to judge. When during the course of a demonstration, the police interfere with the demands being made, it is impossible to avoid physical clashes with the crowd. "Police violence" and "first restraint and later violence" mostly occur in this type of situation.

Whenever opposition parties organize mass activities, the police dispatch maximum force "to maintain social order" and "to search for evidence." This type of improper suppression of street activity is likely to create an uneven and inadequate distribution of the police force. We must establish the idea that conflicts between the police and the people are not necessarily the fault of the people. Even though there might be violence or threat of violence that jeopardizes public affairs, it can also be because of the misconduct and abuse of authority by government employees.

Police discipline and social order are very closely related. When the most wanted armed criminal Huang Hung-yu [7806 7703 1384] was arrested, 150,000 new Taiwan dollars were lost at the scene. After the arrest, a whole catalogue of things disappeared, and although the gold watches were later retrieved, police involvement in this major crime situation seriously exposed the ruinous state of their discipline. In addition, in solving cases, police need the help of informers, most of whom have underworld connections. These triangular ties with the underworld, the demimonde, and respectable society also constitute one of main factors affecting social order.

### **B. Basic-level police who die in the line of duty.**

The approach of those in high position favoring severe punishment and suppression would require greater increases in the duties of basic-level police personnel than they have the capacity to handle (for example, night work) and, at the same time, would put them at greater risk to life and limb. According to statistics from the



Office of Police Administration, from January to November 1990, 30 persons died in the line of duty and 417 were injured. Of these, six were killed in the line of duty after being assaulted and 170 were injured. These statistics are proof enough in themselves. Extremely harsh punishment often gives the criminal to understand that, if he is caught, he will die or never again see the light of day. This causes him to be even more violent. This is especially true when he is confronted with arrest by the police. There is a "necessity" to either kill and or wound the police to avoid being arrested. It is these considerations of the criminal that often lie concealed which account for the sacrifice of basic-level police. What is even worse is a group of desperate criminals forming themselves into a gang, which then becomes confident that the police are absolutely no match for them since the gang's only way to "save themselves and to remain alive" is to drive the police away or to kill them.

#### **IV. The role of the military.**

##### **A. The roles of the military and the police are blurred.**

Every country, to protect itself against armed attack from the outside, must form an armed force to protect its own group. Domestically, it also has to have those who maintain order. The two each have different missions. Looking at it from a professional division of labor, we see that the military is responsible for doing battle externally. When there is an armed attack from the outside, the military must take up arms and resist it. The internal order of the state is the responsibility of the police. The military and the police have relatively clear lines of demarcation. Maintaining social order is in the category of police administration under internal affairs. The military cannot exceed its function and meddle in internal affairs. For this reason, the supreme organization with respect to social order must be the Office of Police Administration of the Interior Ministry.

Furthermore, in modern society, the more knowledge progresses, the finer are the specialized distinctions. This gives rise to wide gaps separating the professions. Consequently, people knowledgeable and talented in the military profession are often quite lacking in other areas of knowledge, even to the point of absolute ignorance. Conversely, the situation with respect to nonmilitary persons is the same. One of the reasons that social order is bad is that those from outside the profession are leading those within the profession.

The police force and how well it does are reasons affecting the quality of social order. For a long time, the military has been guiding the police, with the result that police administration, personnel, training, and equipment (not including the riot suppression teams) are not good. Up to now, because the police force has been inadequate for maintaining social order, the military has been brought in to take part in the work of social order. This will have the effect of weakening the police function

even more and affect the organizational and promotional pipelines. The issue of which units are responsible for social order should be dealt with through long-term planning to perfect police administration and the police force. One possibility for increasing the police force without affecting national defense requirements would be to consider amending the military draft law and laws on police administration whereby, under specially designated conditions, the military draft could be used for the police.

##### **B. The limits of military assistance to the police.**

For some time now, the military has dominated the show when they were only supposed to be spectators. It has controlled the police in its handling of social order problems—an odd situation. Moving in the military to assist should be for emergencies and for exceptional situations. Only when domestic order is so chaotic the police cannot cope with it, can they request military units for assistance, and the request must be at the initiative of the police. The assisting military units must obey the orders issued by the police. They must not turn things around and give orders to the police. After the assisting units have completed the task they were sent to help with, they are immediately to return to their parent organization.

In addition, when the police pay the assisting units for their operational expenses, they have to keep within their budget. This puts the brakes on the police and avoids indiscriminate requests for assistance. When the military has a legitimate excuse, it can refuse a police request. At present, the situation is upside down. The police are being controlled by the military. By means of an illegal system, the military has ceased performing its external function and has, little by little, gone into civilian organizations. This seriously threatens the country's rule by law. If we want to become a modern country ruled by law, some of the preconditions are that the military return to its barracks and not engage in various "sideline occupations," that its profession of bearing arms be used to safeguard the country in resisting foreign armed aggression, and that police work be left to professional policemen.

##### **V. The administrators' misuse of reduced penalties.**

Following the formation of the Hao cabinet, particular emphasis was given to settling the problems of social order. Social order does not appear to have improved. Nevertheless, the 80th anniversary celebrations were used as the reason for reducing penalties throughout the country. This was rather inappropriate. We do not think that any one would refuse to give someone who has committed a crime a chance to turn over a new leaf. However, because of the role that an individual plays in society, there are different ways of handling it. Those in power must consider the authority of their office and the effect it has on society as a whole. They should first consider the state institutions. For example, judicial

methods should be improved by having suspended sentences, conditional release, and disciplinary action that ensures social order. Only when it is impossible to rely on judicial channels to achieve justice, should we make an exception and rely on executive authority or legislative authority to remedy the errors of the court and errors in the former primary laws.

In addition, penalty reductions should also abide by objective standards of fairness. They should not be adopted because of a legislator's arbitrary selection. This could, for example, create a situation where the penalty for serious crime such as murder would be reduced and penalties for minor crimes would not be reduced, with a subsequent loss of fairness. If we were to do this, it would be tantamount to encouraging people to commit serious crime. With luck, they could get off with a reduced penalty, while those who commit minor crimes would feel they were left out. This is not because of any "goodness" on the part of the legislators but rather the good intent of the originally excellent laws to reduce penalties being annihilated by an unscrupulous legislature. In addition, given the large number of criminals leaving prison because of reduced penalties and the many problems prison administration still have, it can be expected that a number of the still unrehabilitated and unpunished people leaving prison will in the future have a negative effect on public security.

## VI. Conclusion.

Good social order is what common citizens desire. How they are to effect it depends on the different roles that they, as individuals in society, play (for example, as members of the public, the police, and policy makers) and on their tasks and responsibilities. The higher a policy maker's position, the broader his area of concern. Except for criminals taking part in armed assaults, we must draw up a long-term program that gets at the root of the problem. It should include educational, economic, and social aspects. If a policy maker is going to exchange the blood of the basic-level police to obtain good social order, we can say that he does not deserve to be a policy maker.

Because laws are not perfect, social stability and order do not, for the most part, really depend on the penal code and laws governing order. The reasons for crime and deteriorating social order are not simple. We must formulate a legislative policy which takes into consideration the root causes of crime and deteriorating social order and which also controls the executive organs. The root causes are many, including, for example, political environment, political responsibility, economic background, gap between rich and poor, changes in the social structure, judicial performance (for instance, how the police are equipped, their duty hours, the rate at which they solve cases, and their training), education, value concepts, culture, and morality. They also include not misusing the police force to suppress political opposition movements and social movements to avoid using force to cope with genuine criminal activity. In addition, using

the military to lead the police in maintaining social order destroys the functional distinction between the military and the police and creates a situation where the nonprofessional is directing the professional. This also must be changed.

## Indoctrination of Ethnocentrism Denounced

91CM0375B Taipei TZULI WANPAO in Chinese  
11 Mar 91 p 17

[Article by Liu Fang (0491 2455), national middle school professor: "As People of Integrity, Taiwanese Should Refuse To Watch the Excesses of the TV Series *Love*"]

[Text] During the past two months, Hua-shih Television, which is controlled mainly by the military, has been promoting a dramatic series about mainlanders and Taiwanese, entitled *Love*. Hua-shih Television has not only declared that the series is in first place among viewers, it has also boasted that it has made a favorable impression on them. I have never watched TV serials. Because you do not need to watch to know that they have low standards. They are only suitable for the intellect of those under 15, not to mention the implications of the brainwashing techniques that permeate this political film. During winter vacation, I returned to my native village and, making an exception, watched it occasionally with my relatives. Aside from the strong impression that it was devoid of content and that its preachings were extremely dense, I could not help but be filled with rage.

Outwardly, the play seems to be quite realistic. There are Taiwan buildings from the forties and fifties, wooden gates, hoodlums, open markets,... and clashes between Taiwanese and mainlanders, love affairs, and even harmonious integrated marriages. However, its substance is imbued with Han chauvinism. It emphasizes the superiority of mainlanders and, as the plot unfolds, blurs a number of factual situations regarding the Taiwanese and even makes them feel inadequate. Throughout the plot, every law-abiding and just person, every reasonable person, and every cultivated person seems to be played by a mainland and the hoodlums, petty thieves, snobs, money grubbers, and vacillators seem to be Taiwanese. For those who do not know the Taiwanese, it gives a false impression. It makes people think that the mainlanders came to instruct the Taiwanese in their lofty culture. Consequently, except for a couple of model marriages between Taiwanese and mainlanders, if its intention is to spread "love" and "concern" for society, it is a gross deception.

What we resent is that this play glosses over too many historical facts. The real culture of disobedience to the law and bribery was actually brought by the Kuomintang [KMT] regime, the conquerors whose method it was to bully and oppress the Taiwanese. Although we bitterly detested the brutal colonial rule of the Japanese, we cannot deny that, under Japan's perfected system of civil service, obedience to the law and administrative efficiency made the Japanese incomparable to the KMT's

corrupt and feudal regime. Even though it was the rule of a different race, Taiwanese of the older generation believed in the fairness of the Japanese courts. How many today believe in the judicial system manipulated by the KMT? The play *Love* prettifies the "mainlanders" too much. The total number of Taiwanese cruelly injured or killed during Japan's brutal colonial rule of almost 51 years does not come close to the number of those killed or injured during the single incident created by the KMT on 28 February. Are Taiwanese really all so rude, unreasonable, vacillating, selfish, shortsighted, and uncouth as presented in the play? We would like to ask, where did the outstanding Taiwanese heroes who were nurtured during the Japanese occupation all go? Was it not during the 28 February incident that they were cruelly murdered by their rulers, coldbloodedly, indiscriminately, and systematically slaughtered? How tragic and miserable it has been for the Taiwanese! Even today most of them still do not know that, during the initial period of the restoration, their cultural, scientific and technical, and economic levels already greatly exceeded those of the mainland. Manipulated by false propaganda and feeling inadequate, the Taiwanese felt they "should be grateful to the benevolent rule of the KMT for everything."

As people of integrity and honor, we Taiwanese reject the deceptive methods used in *Love*. What we advocate is a "greater love" that identifies with this piece of land and shows concern for the opportunity our native soil has offered, not a "false love" that is imbued with political propaganda, one that deviates from a great many historical facts, consists of a concerted policy to deceive people, and hints at the superiority of the mainlanders. What do a few integrated marriages between Taiwanese and mainlanders have to do with "love?" With resentment, I lodge a stern protest to the insensitive feudal rulers and to government television: Stop defaming and deceiving the Taiwanese people!

### Constitutional Reform Reaches Stalemate

91CM0347A Taipei TZULI WANPAO in Chinese  
26 Feb 91 p 17

[Article by Professor Li Hung-hsi (2621 7703 4406):  
"The Stalemate of Constitutional Reform"]

[Text] Since the senior representatives of the National Assembly staged "the Legend of Mountain" in the spring of 1990, the constitutional crisis which had formed in Taiwan in recent years and the strong voices demanding constitutional reform have forced the government and the ruling party to respond in a passive and reluctant manner. Obviously the fundamental cause of such a huge storm lies, on the one hand, in the ideological value and system structure of the Constitution of the Republic of China itself which is incoherent and complicated and which only reflects the plain results of consultation of political forces of unrelated parties in the past. It completely ignores the fact that a constitution should be formulated in accordance with the reasoning principle of

the comparative study of constitutions to make it an organic system easy to operate. As a result, the constitution itself is full of self-contradicting and confusing loopholes in theory and system and leaves great room for power struggle. On the other hand, the constitution of the Republic of China is over 40 years old, and time has brought many changes and everything is different now. The constitution however is still oriented to the vast land and population in mainland China, which is as different as heaven and earth to the current environment of constitutional implementation in Taiwan. It also does not meet the demand of most people for large-scale constitutional reform and a complete turnover of the national assembly. Therefore, constitutional reform should concentrate on this, suit the remedy to the case, and carry out effective, extensive reform.

Unfortunately, judged from its performance in constitutional reform in the past year, we really cannot see the sincerity of the ruling party of the government. Instead, we can easily find incidents where it only tries to protect the current system to maintain vested political and economic powers, and that it hesitates to carry out many constitutional reforms or tries to muddle through and put everything off. Due to limited space, this article will discuss the main flaws and problems of this matter.

#### 1. The Choice of Constitutional Amendment and Formulation

Due to the complexity of its structure, the Constitution of the Republic of China cannot be easily implemented. The time and space in which this constitution was formulated are so much different from the environment in which Taiwan pursues a democratic constitutional government as was mentioned above. Therefore, relying on the limited method of "constitutional change" of "constitutional amendment" may not be able to fully satisfy the needs of today's constitutional reform. "Amending constitution" and "formulating constitution" both have advantages and disadvantages. So normally the government and the ruling party should consult the government and the public to solicit opinions from all sides on the question of which is better—"amending or formulating constitution." They should also consult domestic and foreign scholars and experts specializing in the field of constitution and make a decision only after obtaining an objective appraisal. But the ruling party went ahead with the amendment of constitution without carrying out thorough discussions, which was indeed rather rash.

#### 2. The Flaws of One Party Amending the Constitution

Both "constitutional amendment" and "constitutional formulating" concern the change or reform of the basic law of the state. Originally all political parties, both the ruling party and the opposition, should first carry out political consultations to reach a "common understanding" and use it as the basic principle and framework for the "amendment" or the "drafting" of the constitution. In 1946 before the current constitution was formulated,

the ruling party of the government already knew that they should hold a political consultation conference of all political parties, ruling and opposition, and prominent personages of society to work together on the principles for the formulation of constitution and then used it as a basis for the formulation and promulgation of the current constitution. However in the current constitutional reform, the ruling party formed on its own a constitutional reform planning group in the KMT Central Committee and designated a room and worked out schemes to carry out the work of "amending the constitution" by one party. As a result, either because many members of this group are high-ranking party and government bureaucrats who seek only to benefit the party or protect their own personal interests or because very few members are specialized in constitution and are not familiar with the theory and system of constitutional study, the constitutional reform opinions the group brought up in the past several months have failed to bring about substantial changes in long-standing abuses to alleviate the constitutional crisis and open up opportunities for a democratic constitutional government. They have strangely insisted on preserving the outmoded and outworn or brought up "theories" and "systems" of constitutional reform that are shocking even to the academic circle of constitution, causing much skepticism in the debate on constitution. Some of their reform opinions overemphasize the interests of vested systems and are far different from the view adopted by the majority of the ruling and opposition parties at the national affairs conference and from the popular expectation on the constitutional reform. All this will have far-reaching influence on future constitutional reform.

### 3. The Debate Over the Subject of Constitutional Amendment

Even if the ruling party of the government stubbornly adheres to its own opinions, it should abandon the absurd and dangerous practice of allowing incumbent senior national assemblymen to "amend the constitution." The mainstream of the ruling party prefers the so-called "two-phase constitutional amendment theory," but there seems to be no such precedent in the history of comparative constitutional study. The stress of this theory is having the incumbent representatives of the first national assembly carry out the "first phase of constitutional amendment" which will abolish the provisional clauses and provide a "legal basis" for the government to hold the election of representatives of the second national assembly. This theory of allowing incumbent national assemblymen to provide a "legal basis" for the election of people's representatives of next national assembly through "resolution" (not according to the stipulations of the constitution) is something beyond the comprehension of constitutional scholars. The government has put off the election of the people's representatives of the second national assembly for many years. The reason is that according to the No. 31 interpretation of the Supreme Court Justices Meeting and the Sixth stipulation of the "provisional clauses,"

senior people's representatives of the Central National Assembly are allowed to continue exercising their functions without reelection. However since the No. 26 interpretation of the Supreme Court Justices Meeting has changed and overthrown the No. 31 interpretation and that the "period of mobilization and unrest" will be terminated in May, thus nullifying the "provisional clauses," the reason for postponing the election of the representatives of the Second National Assembly no longer exists and the election should be held naturally in accordance with the 26th and 28th stipulations of the constitution. There is no need to provide any "legal basis." How could the senior representatives of the First National Assembly, who are not qualified to represent anybody to begin with, create a "legal basis" that is higher than the constitution? What a preposterous idea! Besides, the mainstream of the ruling party thinks that as long as the senior representatives of the First National Assembly finish the "first phase of constitutional amendment," they would voluntarily turn the power to "amend the constitution" over to the newly elected representatives of the Second National Assembly and step down on their own. To think so they are indeed childish optimists who have seriously underestimated the ability of senior national assemblymen to put up a desperate struggle, resist giving up, cause trouble, and play political tricks. How dangerous such an underestimate would be! However, the proposition of the non-mainstream of the ruling party on the "theory of one-phase constitutional amendment" that allows the incumbent representatives of the First National Assembly to finish the work of "constitutional amendment" is even more absurd. This theory even ignores the sanctity of a democratic constitutional government and openly states that allowing future newly elected representatives of the Second National Assembly to "amend the constitution" may hinder the process of "constitutional amendment" because the Democratic Progress Party and representatives holding similar views may exceed a third. It holds that it would be easier to control the process of "constitutional amendment" if it were carried out by the incumbent representatives who the public despise. This theory is almost "ignorant" of the fact that the current constitutional crisis is mainly caused by those senior representatives of the Central National Assembly who hold down the job without doing a stroke of work and stubbornly refuse to step down. It also ignores the serious consequences of allowing senior representatives to "amend the constitution." This really is a serious contempt for the political conscience of the public. Because of this, the ruling party of the government should abandon any attempt and thought of allowing senior representatives to "amend the constitution."

### 4. The Basic Principle of Respecting Constitutional Government

The constitution is the law of richest political color, but it is a "law" which is completely different from "political guidelines." Because it is the basic and parent law of

"law," it deserves to be called the law of all laws. Therefore, the essence of law—equality, justice, reason, and jurisprudence—must remain the essence and main intension of the "constitution." Although the content of "constitutional amendment" should conform to current political needs, it cannot violate the essence of constitution or drift too far away from the reason of constitutionalism and the basic structure commonly accepted by the international circle of comparative constitutional study. However, the "results" of discussions carried out by the constitutional reform planning group of the central committee of the ruling party in recent months show that this group not only fails to realize that it has been planning behind a closed door and knows nothing about the outside reaction but also conspires to protect only the interests of the party and meet the desires and expectations of the control and power core. In addition, because it seems to lack deep understanding of constitutionalism it has "created and invented" many theories and systems. Some of them have never been heard of in the circle of comparative constitutional study; some are the reincarnation of outdated legal systems which have long been abandoned by mankind; some connect one thing with another in an attempt to confuse the meaning and benefit from the confusion; and some are bad imitations which not only shocks constitutional scholars and makes them sigh but also causes the general public to be skeptical and antagonistic. For instance, there are the "theory of two-phase constitutional amendment," "the appointed representation system," "the compromising system of appointed and legal representation," "articles for the amendment of the constitution of the ROC," "the definition of countersign categories," "allowing incumbent national assembly representatives to provide a 'legal basis' for the election of people's representatives of the next central national assembly," "the system under which representatives who do not represent any specific district represent the mainland," "the constitutional amendment culture of the provisional clauses," "grafting the power and organ of the emergency system onto the normal system of constitution," and "using the name of constitutional reform to turn a legal system from violating the constitution to conforming to the constitution and law." There are too many such instances to be mentioned one by one. These unorthodox opinions of comparative constitutional study not only cannot help the constitutional reform but also can thoroughly undermine the sanctity of the original great fundamental law of the constitution and bring about a grim future for the constitutional government.

### 5. The Issue of Constitutional Reform

The government and ruling party hesitate to make a move and are dragging their feet on the urgent issues of constitutional reform. The public and opposition parties are longing for the reform to solve many problems of constitutional crisis. For instance, questions such as preserving or abolishing the national assembly, presidential election, readjusting, preserving, or abolishing the the personnel administration of the Examination and

Executive Yuan, preserving or abolishing the Supervisory Yuan, the representation of overseas Chinese and professions, the cabinet or presidential system of future government system, how to define the relations among the president, the Administrative Yuan, and the Legislative Yuan, the legalization of local autonomy, the future sovereignty and status of the state, how to define the relation between the two sides of the straits, open popular election of governors and mayors, the separation of party from government, the political issue of military involvement, judicial independence, representation of no specific district have not been paid enough attention or discussed vigorously.

Constitutional reform is a key to the future prosperity and decline of the state and society. But the government and ruling party seem to be only going through the motion, dragging their feet, and trying to maintain the status quo. The constitutional reform which appears to be quite serious seems to be running in place or has shown some signs of regression. Compared to similar phenomena in various eastern European countries between 1986 and 1989, this really makes us worry.

### Paper Urges Bigger Contribution to Asian Development Bank

OW0205174791 Taipei CNA in English 1454 GMT  
2 May 91

[Text] Taipei, May 2 (CNA)—The following is the editorial of Thursday's EXPRESS NEWS, a daily newspaper published by the CENTRAL NEWS AGENCY.

Should the Republic of China [ROC] contribute more to the Asian Development Fund (ADF)—the soft-loan window of the Asian Development Bank [ADB]. The answer is yes and no, according to Dr. Samuel C. Hsieh, Taipei's director at the ADB, who told his colleagues at the 24th annual meeting of the ADB Board of Governors in Vancouver last week that the Republic of China was "prepared to participate as appropriate" in the current round of the ADF's replenishment, the sixth in two decades.

Hsieh, however, did not commit a specific figure of Taipei's contribution. He said that a firm commitment could be made only after further consultations with the ADB management as well as the ROC legislature.

The bank was abuzz about Hsieh's commitment. ADB President Kimimasa Tarumizu was encouraged by Taipei's readiness to contribute. Other member countries expressed the hope that the Republic of China would make a more generous donation than the US\$2 million it contributed eight years ago to the US\$3.6 billion fund.

But will Taipei contribute more this time, now that it holds the largest foreign reserves in the world? If the vagueness of Hsieh's brief announcement is of any indication, the figure could hardly be significant.

Taipei can certainly afford to donate more. It has not only been engaged in co-financing projects in a number of ADB member countries but also established a US\$1.1 billion International Economic Cooperation Development Fund to assist less developed countries. To be sure, it is not rich and mean; it is wealthy and generous.

If Taipei makes only a token contribution to the ADF, it is possible that it wants to send a message to the ADB that this country is still unhappy with the bank which has unilaterally redesignated the ROC's official title in the bank. For the fourth year in a row, the ROC attended the annual meeting of the ADB Board of Governors bearing the name of "Taipei, China."

We can understand the reason behind Taipei's desire to express its displeasure with the bank. It deserves far better treatment and respect. After all, it is a founding member of good standing. We, however, do not agree that the ADF is the forum for expressing such displeasure. We deem it fit and proper for the Republic of China to make a meaningful donation this time.

Times have changed. The Republic of China needs a higher visibility in the international arena, and a meager offer to the ADF would only tarnish the ROC image.

In addition, the ADF is a meaningful endeavor that deserves support. The fact that the Republic of China was once an underdeveloped country which has received foreign aid to achieve its current status, is an eloquent argument for donating more to the ADB. We believe it will be money well spent.

#### **Asian Pacific Should Form Regional Body**

*OW0305140391 Taipei CNA in English 0805 GMT  
3 May 91*

[Text] Taipei, May 3 (CNA)—Asian Pacific countries should soon establish a new regional trade and economic cooperation organization in order to survive mounting competition from emerging European and American trade blocs, the president of the Pacific Basin Economic Council (PBEC) said yesterday.

C. F. Koo said, just prior to his departure for Mexico to attend the 24th PBEC annual conference, that regional economic cooperation is a future trend and the international balance of power will increasingly be determined by regional economic strength.

Koo said the European Community will become a unified market in 1992 and the United States is actively seeking to form a similar American trade bloc. If Asian Pacific countries fail to catch up with this latest international trend and develop a suitable formula for regional economic cooperation formula, they may lose their world market niches.

Although Asian Pacific economies, with their very different geographical and historical backgrounds, cannot be integrated into an EC-like common market in a short

period of time, they can begin to coordinate their economic and financial policies with a view to enhancing regional competitiveness in the world market, the business tycoon said.

Koo pointed out that the United States and Canada must be included in the proposed Asian Pacific trade bloc. An Asian Pacific economic cooperation group will not be strong enough to realize its regional development goals if its membership includes only Japan, South Korea, Taiwan, New Zealand, Australia and Southeast Asian countries.

Asked whether the Republic of China [ROC] can join the Asian Pacific economic cooperation forum this year, Koo said the possibility is about 50 percent because mainland China has not given up its attempt to block ROC's role in the international arena. He urged APEC authorities not to "politicalize" the membership problem. He asserted that APEC will benefit if Taiwan, Hong Kong and mainland China are all admitted into the group.

#### **CEPD Calls for More Investments in U.S.**

*OW0405111091 Taipei CNA in English 0857 GMT  
4 May 91*

[Text] Taipei, May 4 (CNA)—The Council for Economic Planning and Development (CEPD) has recommended that incentives be adopted to encourage investing in America to cope with the expected formation of a regional trade bloc there.

Negotiations are under way to form a free trade zone between the United States and Mexico, following the formation of a U.S.-Canada free trade zone. The two free trade areas are expected to merge sooner or later, CEPD noted.

The trend would set the Republic of China [ROC], whose economy relies heavily on external trade, in an unfavorable position, CEPD warned.

The U.S. remains the ROC's largest export market though U.S.-bound shipments have dropped from a high of 40-odd percent to the current 25 percent of Taiwan's total exports.

The government should encourage local businesses to either invest or form joint ventures there, moves, CEPD said, would help break through anticipated trade restrictions.

CEPD also suggested signing bilateral and multilateral free trade agreements with other countries.

#### **Unemployment Rate Declines**

*OW0805102391 Taipei CNA in English 0846 GMT  
8 May 91*

[Text] Taipei, May 8 (CNA)—The Directorate General of Budget, Accounting, and Statistics (DGBAS) said a manpower resources survey showed that unemployment

during the first quarter had dropped to 115,00, down 28,000 from the last quarter.

DGBAS attributed the phenomenon to a rebounding economy and fewer people being laid off because of staff cut or business closure.

DGBAS said that the jobless rate was 1.37 percent in the first quarter, a decrease of 0.31 and 0.1 percent from last quarter and the same period last year.

### 10-Year Commerce Reform Program Planned

*OW1005081791 Taipei Voice of Free China in English  
0200 GMT 8 May 91*

[Text] The Economics Ministry will begin a 10-Year commerce reform program, which, an official said is to bring a significant impact on the local business sector.

Beginning with the commerce automation project, the reform will gradually expand to cover finance, land, health and medicare, transportation, population administration, tourism, and other fields. The official said that, thanks to the program, a revolutionary impact on the circulation of commercial goods and trends of consumption are expected to take place in Taiwan. The comprehensive reform, the official predicted, will bring at least \$100 billion worth of business opportunity for the local information industry. He added that long term financial and tax measures will be adopted as tools to ensure its successful implementation. Enforcement rules which will lay a solid foundation for the reform will be completed before June, 1992.

### Japanese Trade Mission Visits Taipei

*OW0905083391 Taipei CNA in English 0747 GMT  
9 May 91*

[Text] Taipei, May 9 (CNA)—A large Japanese trade mission will arrive in Taipei Sunday to explore ways to narrow the huge trade imbalance between the Republic of China [ROC] and Japan.

The mission, organized by Japan's powerful Federation of Economic Associations (Keidanren), is composed of the chief executives of more than 100 leading Japanese companies, including Marubeni, Mitsubishi, Mitsui, Itochu, Sumitomo, Kanematsu-Gosho, and Kish.

The Keidanren delegation, headed by former Jetro [Japan External Trade Organization] President Shoichi Akazawa, include Takao Akao, former Economic Planning Agency Vice Minister Tohru Shinohara, a Ministry of International Trade and Industry section chief, and many other industrial and business leaders.

It is the highest-level Japanese trade mission to visit the Republic of China since Keidanren sent its Anzai mission to Taipei in 1983.

The ROC has organized a similar group, to be led by C. F. Koo, president of the Chinese National Association of Industry and Commerce, to meet the upcoming Keidanren delegation.

More than 300 Taiwan companies will join eight panel discussions on ways to promote trade and technological cooperation with their Japanese counterparts on electronics and electric appliances, pollution control equipment, farm goods and aquacultural products, chemicals, and the like.

The Japanese mission is expected to place orders and negotiate technical cooperation contracts with local businesses. The ROC will also discuss trade promotional programs with Japanese business leaders with a view to redressing the ROC's widening trade deficit with Japan, which is expected to jump to 9 billion U.S. dollars this year, Vice Economic Affairs Minister P. K. Chiang said.

The ROC will present a list of technologies it would like Japan to transfer and will ask Japanese authorities to help Taiwan companies locate suitable joint-venture partners, Chiang said.

Taipei will also ask Japan to help encourage more Japanese industrial giants to invest in high-tech industries here and to help promote technological exchanges. Japan will also be asked to remove tariff and nontariff trade barriers and to simplify customs clearance procedures to facilitate ROC exports to the highly discriminating Japanese market.

### Li Says Europeans Welcome To Join Development Plan

*OW1005103491 Taipei CNA in English 0804 GMT  
10 May 91*

[Text] Taipei, May 10 (CNA)—The Republic of China welcomes European countries to join in its multi-billion-dollar National Development Plan and is willing to help Europeans develop Asian markets, President Li Teng-hui said yesterday in his keynote speech at a dinner party hosted by the European Council of Commerce and Trade (ECCT) at Taipei's five-star Grand Hotel.

"We hope Sino-European relations will enter a new stage through increased commercial exchanges and technological cooperation," said President Li, a guest of honor at the party held to celebrate the Europe Day and presided over by ECCT Chairman Juergen John.

Li told some 450 attendants from both European and Chinese business communities that Europeans are welcome to participate in the 300 billion-U.S. dollar National Development Plan to undertake such projects as energy resources development, environmental protection engineering, aerospace industry, high-speed railway systems, and nuclear power plants with a view to uplifting the Republic of China [ROC] into the ranks of advanced countries.



"We welcome European countries to lend technologies and expertise in completing these infrastructure projects," the president said.

Li pointed out that the ROC Government has made relentless efforts to promote economic liberalization and internationalization, and to reduce reliance on the U.S. market for exports. This, coupled with the growing number of visits by high-ranking European officials to Taipei, has served to strengthen substantive ties between the Republic of China and Europe.

Two-way trade between Taiwan and Europe has been growing at an annual rate of 10 percent in recent years and reached an all-time high of 21.8 billion U.S. dollars in 1990, Li reported.

The president continued that the ROC Government has never wavered in its commitment to promoting democracy, and has completed the first stage of constitutional

reforms by terminating the 43-year "Period of Communist Rebellion" and approving amendments to the Constitution to clear the way for election of a properly represented new parliament. He assured that ROC's constitutional reforms will be completed next year as scheduled.

Although the ROC and Europe are geographically separated and culturally different, Li said he believes communication and cooperation will lay a solid foundation for future development of bilateral ties.

The president pledged that the ROC will play the role of bridge between Europe and Asia and help European countries develop Asian markets.

The ECCT, with over 250 members, was inaugurated in Taipei in January 1988 to provide support for European businesses in Taiwan.

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